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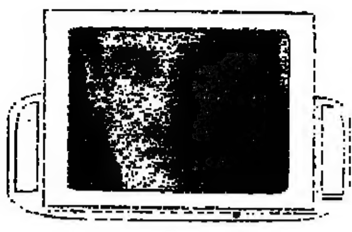

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Today's surveys
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World Business Newspaper — THURSDAY MARCH 28 1996

Large banks must cut workforces by half, says report

Many large retail banks in North America, continental Europe and the UK will have to cut their workforces by up to half in the next 10 years, according to a report by the Economist Intelligence Unit and management consultants Coopers & Lybrand, to be published next week. One of the report's authors says they should do it quickly rather than gradually if they want to maintain the commitment of their employees and the reputation of their brand names. Page 14

France names defence procurement head: The French government named Jean-Yves Helmer (left), the head of Peugeot's car division, to be its chief of defence procurement and gave him the task of improving productivity in French military programmes industry by 30 per cent over the next few years. He will be the first civilian, and at 49, one of the youngest heads of the Délégation Générale pour l'Armement, which is the 48,000-strong industrial arm of the French defence ministry. Page 14; Observer, Page 13.

Rabin assassin sentenced to life in jail: A right-wing religious Jew, Yigal Amir, was sentenced to life imprisonment after being found guilty of murdering Israeli prime minister Yitzhak Rabin. The court rejected the 25-year-old law student's plea that he had meant only to paralyse Rabin to stop peace moves with the Arabs last November. Page 5

Jaguar British state funding approved: The British government received approval from the European Commission to use £71.3m ($108.4m) in state funds to ensure Jaguar's new mid-sized saloon car will be built in England. Page 2

Arjo chief goes after power struggle: The power struggle at the top of Arjo Wiggins Appleton, the Anglo-French paper group, ended when Alain Soulas stepped down as chief executive and Philippe Beylier, head of the merchanting division, was promoted to group managing director. Page 15

Bremer Vulkan, Germany's largest shipbuilder which two months ago sought protection from its creditors, has agreed to hive off two of its east German units for a symbolic DM1 (60 cents) but with no general renunciation of outstanding claims. Page 16

WTO predicts robust trade growth: The World Trade Organisation predicts a year of robust trade growth in 1996, despite signs of a modest slowdown in the second half of last year. Page 14

Brussels hails French urban plan: The European Commission has praised an Ecu21m ($26.2m) package of measures designed to revitalise blighted French city areas using state aid. Page 3

British journalist wins secrecy case: A British journalist threatened with prison and fined £5,000 ($7,650) for refusing to reveal his sources won his case at the European Court of Human Rights which found the UK government guilty of breaching the European Convention on Human Rights. Page 9

Chief of lossmaking Escom steps down: Manfred Schmitt, chief executive of Escom, the leading German computer retailer struggling to recover from high 1995 losses, is stepping down to make way for one of the company's former executives, Helmut Jost, who had moved to IBM. Page 15

Pirelli, the Italian tyres and cables manufacturer, beat analysts' forecasts when it announced doubled net group profits in 1995 at L304bn ($196m). Page 17

Elf Atochem, the chemicals arm of French oil company Elf Aquitaine achieved an almost threefold increase in operating profits last year, to FFr5bn ($988m), and a 65 per cent rise in cash flow. Page 17

Japan's modest moves to deregulate: The Japanese government plans to unveil what promises to be a modest package of 550 economic deregulation measures, likely to be in line with the low expectations of business lobbies and trade partners. Page 4; Editorial Comment, Page 13; Japanese Financial Markets Survey, Separate Section

Clean sweep for US in Dubai World Cup: Cigar became racing's world champion winning $2.4m in the Dubai World Cup, the world's richest Flat race, at Nad Al Sheba. He beat fellow US runners Soul Of The Matter and L'Carriere. Britain's Pentire was fourth.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,658.67	(-11.92)
NASDAQ Composite	1,097.89	(+9.34)
Europe and Far East		
CAC40	2,030.51	(+22.56)
DAX	2,525.42	(+26.10)
FT-SE 100	3,672.4	(+11.5)
Nikkei	21,329.98	(+315.21)

US LUNCHTIME RATES

Federal Funds	$5\frac{7}{16}$%
3-mth Treas Bills: Yld	5.134%
Long Bond	$92\frac{1}{16}$
Yield	6.607%

OTHER RATES

UK: 3-mo Interbank	$6\frac{1}{16}$%	(same)
UK: 10 yr Gilt	$95\frac{1}{2}$	($95\frac{9}{16}$)
France: 10 yr OAT	104.72	(104.41)
Germany: 10 yr Bund	97.18	(97.07)
Japan: 10 yr JGB	98.619	(98.119)

NORTH SEA OIL (Argus)

Brent 15-day (May)	$19.83	(19.955)

GOLD

New York: Comex (Apr)	$400.4	(400.5)
London: close	$400.1	(400.2)

DOLLAR

New York: lunchtime		
£	1.5195	
DM	1.4855	
FFr	5.0645	
SFr	1.19825	
Y	105.575	
London:		
£	1.5184	(1.5222)
DM	1.4875	(1.4758)
FFr	5.0748	(5.0528)
SFr	1.2003	(1.1911)
Y	106.74	(106.245)

STERLING

DM	2.2586	(2.2463)
Tokyo close:	Y 106.515	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12		
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft230	Morocco	MDH16	Slovak Rp	Sk65		
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00		
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250		
Czech Rp	Kc60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20		
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00		
Estonia	Ekr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750		
Finland	FM15.50	Kuwait	Fils650	Portugal (m'land)	Es240	Turkey	L70,000		
France	FFr11.50	Lebanon	U$3.00			UAE	Dh12.00		

Apple Computer forecasts biggest losses of $700m

By Louise Kehoe in San Francisco

Apple Computer, pioneer of the personal computer industry, warned yesterday that it expects net losses of about $700m for the current quarter after "sizeable charges" to reduce bloated inventories.

The loss will be the largest in the company's history, far exceeding a $188m deficit reported in mid-1993.

Apple had previously said it was braced for losses from operations and the need to make a restructuring charge.

However, the figures disclosed yesterday for expected losses in the second fiscal quarter ending March 29 were far bigger than Wall Street analysts had predicted.

Mr Gilbert Amelio, the former semiconductor industry executive who took over as chairman and chief executive seven weeks ago, said he had identified Apple's problems and "they are fixable".

The strategic and operating plans are "still cooking", the company said. Mr Amelio plans to announce his recovery plan by early May.

"We plan to aggressively address these issues and take the necessary corrective actions," he said, stressing that he aimed to "reinforce our customer appeal and realise the company's long-term earnings potential".

After a loss of $69m in the first fiscal quarter, the company said in January it would lay off about 1,300 employees, or 9 per cent of its workforce, and take a restructuring charge of about $125m in the second quarter.

This estimate has now been raised to about $175m, suggesting deeper job cuts. In addition, Apple will take an after-tax charge of more than $350m to write down the value of excess stocks. After-tax losses on operations are now expected to be about $175m.

At the end of the first quarter, Apple had inventories worth $1.9bn – about half in finished goods and the remainder in parts. The finished goods, believed to be largely Macintosh PCs for the consumer market, are rapidly declining in value as new models come to market. Like other PC manufacturers, Apple is also seeing the book value of its stocks of memory chips fall sharply as their prices plummet.

"I don't think anyone realised how big the inventory write-off would be," said Mr Tim Bajarin, president of Creative Strategies Research International, a US market research firm, but it appears that Mr Amelio "is trying to put the bad news behind him by taking all possible write-offs, to get a fresh start".

Apple's toughest problem, however, will be to regenerate demand in a sluggish market. The market for PCs is "unsettled", Mr Amelio said. Second-quarter revenues and unit shipments would be "substantially below" last year's second quarter levels, when Apple recorded revenues of $2.65bn, he said.

Last week, Dataquest, the US market research group, predicted growth of only 8 per cent in the US home PC market this year, down from 22 per cent in 1995 and 42 per cent in 1994. The researchers forecast a flat market in 1997 and a decline of about 2 per cent in 1998.

The US home PC market is approaching saturation, according to Dataquest, with 65 per cent of households with income over $100,000 already equipped with at least one machine.

Moody's Investors Service, which downgraded Apple's debt for the second time this year on Monday and warned of a possible further downgrade, said the weakening PC market and Apple's internal problems "will require drastic actions".

Despite Apple's announcement, the company's share price rose slightly to $24¾ in mid-session yesterday, up from Tuesday's close of $23⅞.

Sony and NEC forced into reorganisations, Page 18

No blank cheque: Fischler insisted on Britain putting forward new plans to control BSE before compensation could be assessed — Reuter

EU offers concessions to soften British beef ban

By Caroline Southey in Brussels and Alison Maitland and George Parker in London

The EU Commission yesterday made two important concessions to Britain designed to soften the blow of the worldwide ban on British beef and beef products, which was due to come into effect immediately.

In stark contrast to his declaration on Monday night, Mr Franz Fischler, EU commissioner for agriculture, made a firm promise to provide aid to the British government and farmers affected by the crisis over BSE and undertook to review the ban within six weeks.

Mr Douglas Hogg, British agriculture minister, threatened a legal challenge to the Commission's export ban if it remained in place.

"I would argue that it's very difficult to see any compelling legal justification for a ban on exports to countries outside the EU," he told MPs. But he said "a legal challenge would take a number of months and it is not an immediate solution to this problem".

Mr Fischler insisted that the British government would have to come forward with new plans to control BSE before he could assess the scale of compensation.

He said the Commission had endorsed the ban unanimously as a first step towards reassuring consumers about the safety of beef and safeguarding the EU's beef industry. "We do not want EU markets to be drawn into the problem any more than they have already."

Mr Fischler's comments came as Britain's Transport and General Workers' Union warned that tens of thousands of workers could lose their jobs as a result of the beef crisis. Most of the 6,500 workers at cattle abattoirs expected to be laid off or put on short-time working by the end of the week, the union said.

Cattle prices slumped further yesterday and the numbers of animals being sold for slaughter dropped by 98 per cent. Evidence

Continued on Page 14
Reports, Page 9

Banks warned over foreign exchange risks

Failure to measure large settlement liabilities threatens world financial stability, says report

By Philip Gawith in London

Leading central banks warned yesterday that a widespread failure by banks to measure and manage large settlement risks in the global foreign exchange markets posed a threat to world financial stability.

A report published by the G10 central banks based on a survey of 80 leading banks found that the duration of exposures, and the amounts at risk, were greater than expected, and not properly managed.

"Excessive risk and unnecessary risk is being taken by banks in foreign exchange," said Mr William McDonough, president of the Federal Reserve Bank of New York, and chairman of the Committee on Payment and Settlement Systems of the G10 central banks.

Daily turnover in the foreign exchange markets is an estimated $1,230bn. Since each trade could involve two or more payments, daily settlement flows are likely to be a multiple of this turnover figure.

Mr McDonough suggested that the report would drive foreign exchange settlement risk "right to the top of banks' agenda". He said it dealt with the "plumbing of the world financial system".

The report emphasises that foreign exchange settlement exposures are not simply intra-day. It can take one to two business days and often longer before a bank can be sure that it will receive the currency that it has purchased.

It says many banks lack clear internal lines of risk management and are without the authority structures or incentives to address the issue.

The central banks also warn that many market participants incorrectly believe that the probability of losses on their foreign exchange trades is not comparable to risk from their loan exposure.

The committee firmly favours a private sector solution to the problem. Mr McDonough said he was confident that an education campaign suggested by the report would be "98 per cent of solving the problem", but supervisory measures would be taken if necessary.

The report finds that individual banks could substantially reduce risks if they improved their back office payments processing, correspondent banking arrangements and risk management procedures.

Mr David Clark, executive general manager in London at Bank Gesellschaft Berlin, said the industry tended to view the settlement issue as a "Cinderella risk", hence the scepticism about devoting significant resources to combating it.

Central bankers point out that foreign exchange trading in mature currencies is becoming increasingly concentrated in the hands of a few well capitalised banks – the top 10 account for more than 40 per cent of turnover in London. They believe that any future settlement mishap is most likely to occur in an emerging market currency.

Risk strategy outlined, Page 5

German conglomerate adopts US system of filing accounts

By Michael Lindemann in Düsseldorf

Veba, Germany's leading industrial conglomerate, yesterday became only the second German company to file its accounts according to the US-based Generally Accepted Accounting Principles (GAAP) standard.

The electric utility, oil refining and chemicals group argued that the change would make it more attractive to international investors and would take it a step closer to a listing on the New York stock exchange.

Veba, which still earns 70 per cent of its revenues within Germany, needed to become more international, Mr Ulrich Hartmann, chief executive, said at a press conference.

About 44 per cent of the group's equity was held outside Germany, he said, with 15 per cent held in the US.

Veba's move is likely to be followed by other leading German companies, especially the chemicals groups Bayer, Hoechst and BASF, which have recently said they would do more to increase transparency and shareholder value.

Daimler-Benz, Germany's biggest company, has so far been the only one to report GAAP accounts. But Deutsche Telekom, which is poised for partial privatisation later this year, is expected to follow suit in order to be able to list in New York.

Veba announced a 34 per cent rise in 1995 net profit to a record DM2.1bn ($1.41bn), driven mainly by an extensive restructuring programme over the last two years, especially at the Hüls chemical division.

The conglomerate said it would raise the dividend on its DM5 shares to DM1.70, up from DM1.50 last year.

Mr Hartmann warned that further growth this year would depend largely on whether the German economy picked up, as predicted, during the second half.

Sales in the first two months of this year had matched those of a year ago while profits had been slightly higher, Mr Hartmann said.

Converting accounts to US accounting standards has been problematic for German companies, many of whom prefer the inscrutability of the German accounting system. It enables them to build up reserves which might otherwise be paid out to shareholders.

Mr Kurt Lauk, Veba's finance director, said he had conducted "difficult" negotiations with the Securities and Exchange Commission, the agency supervising the New York stock exchange, for two years before all differences were resolved.

Mr Lauk said Veba had chosen GAAP over the rival IAS accounting standard, widely used by large European companies, because the latter did not permit a listing in New York.

"It is possible that in the next few years we will list in New York," Mr Hartmann said.

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Commission accepts danger Ford may move production to US

Brussels allows Jaguar state funds

By Emma Tucker in Brussels and Haig Simonian in London

The British government yesterday received approval to use state funds to ensure Jaguar's new mid-sized saloon car will be built at the company's home in the Midlands of England. The European Commission authorised £71.3m ($109.4m) of UK state assistance to the company after the government persuaded Commissioners that without it Ford, Jaguar's owner, would build the new X200 small sports saloon in the US.

However, the Commission said that £8.7m of the total £80.1m aid package would have to be notified separately for approval. The Commission refused to accept the extra tranche qualified on regional grounds and argued that the ceiling for permissible assistance to the region had already been met. Although more than half the package (£45.8m) constitutes straightforward state aid and the rest will be paid as regional, environmental and training support, the government will now have to convince Brussels that the £8.7m will be used for other legitimate purposes, such as support for training.

It will also have to provide the competition authorities in Brussels with detailed annual reports on the use of the state assistance "given the variety of the aid measures, and the fact that the regional and environmental aids are granted at the maximum level acceptable," said the Commission.

Mr Nick Scheele, Jaguar's chairman, welcomed yesterday's decision, as "excellent news for Jaguar's employees, customers, dealers suppliers and the West Midlands economy in general".

The new X200 will be produced at Jaguar's Castle Bromwich plant, where paint and body facilities are to be expanded and a final assembly line installed. Stamping with take place at Ford's Halewood site in Merseyside, which like Castle Bromwich, lies in an area eligible for state aid.

The £71.3m aid is part of a Jaguar's total investment of £366m to increase capacity by about 35,000 cars a year, creating 1,360 new jobs and safeguarding a further 3,182.

"With X200 available in three years' time, Jaguar can exceed 80,000 sales a year, double its present levels," said Mr Scheele. The new model will compete with mid-sized executive cars, such as BMW's 5-Series, and re-establish a tradition of medium-sized sports saloons at Jaguar which died out in the late 1960s.

Part of the assistance will be used to build a new waste effluent treatment facility at Castle Bromwich, mainly to treat sludge from the paint shop and reduce emissions of various paint pollutants.

It will also contribute towards a big training effort to accompany the introduction of the new model. Training will be provided by local authorities and local training and enterprise councils (TECs) – employer-led bodies which administer government training schemes.

Stability pact runs into stiff opposition

By Lionel Barber in Brussels

Germany has run into stiff opposition from its EU partners over its proposed "stability pact" to enforce budgetary discipline in a future European monetary union.

All EU member states are prepared to endorse the principle of fiscal discipline, but the majority have raised legal and political objections to the specifics of the plan put forward by Mr Theo Waigel, German finance minister.

At a meeting of the EU's secretive monetary committee in Brussels last week, only France and the Netherlands expressed support for the stability pact, according to officials familiar with the talks.

Other countries, including Belgium, a strong supporter of Emu, expressed reservations about its tough conditions which include hefty, automatic fines for fiscal delinquents and specific public deficit targets of 1 per cent of gross domestic product.

Legal experts have also questioned the form of the proposed stability pact on the grounds that it could be an exclusive arrangement which is outside the EU's present single institutional framework.

The dispute over the terms of a stability pact is politically sensitive because the Bonn government and the Bundesbank view guaranteed fiscal discipline as the trade-off for agreeing to subsume the D-Mark in a future monetary union.

This trade-off is even more important in the event that EU heads of government apply a flexible interpretation of the Maastricht treaty's criteria on public deficits and debt when they select which countries qualify for Emu in early 1998, a Commission official said.

The monetary committee made more progress, however, toward settling the vexed issue of the relationship between those countries forming the planned monetary union and those left behind.

A consensus emerged in favour of making the future single currency – the euro – the anchor within a remodelled European monetary system. This system would include a "multi-speed" exchange rate mechanism for currencies outside the monetary bloc.

Those countries deemed close to meeting the Maastricht criteria for Emu would trade in predetermined narrow ranges; those further away would be allowed wider margins of fluctuation.

Britain strongly objects to any formal exchange rate system, while Sweden and Finland (whose currencies are outside the present ERM) have reservations.

Another crucial unresolved issue is how far the future European central bank will be obliged to intervene on behalf of currencies outside the single currency bloc which are under attack.

Fugitive Swiss financier arrested

By Frances Williams in Geneva

Mr Werner Rey, the fugitive Swiss financier, was arrested in the Bahamas yesterday, five years after his Omni business empire collapsed leaving debts of SFr3bn (£1.6bn).

The arrest of Mr Rey, announced by the Swiss justice ministry, followed an application for his extradition to Switzerland to face charges of fraud, forgery and other irregularities concerning the country's biggest corporate bankruptcy.

Mr Rey made his first fortune in the 1960s through taking over and then selling the Bally shoe company.

During the 1960s he built up a huge international conglomerate using highly leveraged financial deals. These came spectacularly unstuck in 1990 when rising interest rates and a slump in share prices slashed the value of Omni's assets, exposing the group's heavy indebtedness.

The empire toppled in early 1991 and shortly afterwards Mr Rey disappeared, surfacing in the Bahamas the following year. Switzerland issued an *international warrant for his* arrest in 1992 but failed in several attempts to have him deported.

Omni's failure left many respected names in Switzerland's banking and business community with red faces and huge unpaid debts. Lenders were so keen to lend to Mr Rey, then regarded as having the Midas touch, that they failed to make elementary checks on his credit-worthiness.

Large Swiss creditors included Swiss Bank Corporation, one of Switzerland's big three banks, and the cantonal bank of Berne, which subsequently needed a public bail-out to save it from failure.

Among foreign lenders to Omni were France's Paribas, Bankers' Trust of the US and the Japanese-owned Long Term Credit Bank Brussels.

Omni's complex web of shareholdings and cross-shareholdings included big stakes in companies such as the employment agency Adia, the Sulzer engineering group, and Harpener, a German holding company with interests in property, power and services.

The Swiss authorities said in 1994 they were abandoning attempts to extradite Mr Rey because of problems in complying with the detailed requirements imposed by the Bahamian authorities. But last year they apparently changed their minds and a formal extradition request was lodged on Monday.

The financier now has the option of returning voluntarily to Switzerland or contesting the request, in which case the legal battle could last years.

President Havel: West should be firm in face of Moscow's objections and proceed with a timetable for enlargement Reuter

Havel blames west over Russian opposition to Nato expansion

Growing Russian opposition to the enlargement of Nato has been encouraged by the west's hesitancy about admitting new members from central and east Europe, according to the Czech president, Mr Vaclav Havel. Western leaders should be "firm" in the face of Russian objections, he said in an interview, and should proceed with producing a timetable for enlarging the alliance.

*The Russian move to oppose the east*ward expansion of Nato was a "fairly recent" phenomenon, Mr Havel said. "Western caution has been interpreted [in Moscow] as a sign that certain remains of interest spheres, or an invisible iron curtain, are still there, and this has stimulated Russian interest in this matter."

While proceeding with a speedy enlargement of Nato, the west should work to build a partnership between Nato and Russia, said President Havel. But it should also "explain to the Russians time and again that such a partnership is only sensible and thinkable if it is a partnership between two entities that do not interfere in one another's internal affairs".

Candidates for Nato membership in central Europe have become concerned that strong Russian opposition may discourage the western alliance from admitting them. Such fears do not appear to have been allayed by the affirmation of US commitment to Nato expansion delivered by Mr Warren Christopher, US secretary of state, in Prague last week.

Mr Christopher said enlargement was "on track and it will happen". Nato would not "keep the new democracies in the waiting room forever".

General Pavel Grachev, Russia's defence minister, yesterday told his counterparts from the Commonwealth of Independent States that Nato expansion was the biggest threat to their security, writes Chrystia Freeland in Moscow. He called for a co-ordinated campaign against the enlargement. However, his efforts are likely to be thwarted by Ukraine, the second most powerful former Soviet republic. Ukraine is an associate member of the CIS, but it has rejected a military alliance with Russia and has said it supports the gradual expansion of Nato.

The Czech Republic has been forging closer relations with Poland in recent months, in an effort to ensure that it is in the front rank of central European countries to be admitted to Nato.

Mr Christopher said enlargement would "naturally begin with the strongest candidates", but the goal was not to let these nations "escape from central and eastern Europe at the expense of their neighbours. Those who are first have an obligation to ensure their membership keeps the door open for others".

Mr Havel called for a redefinition of Nato "now that the threat of communist expansion is gone", and called for it to chart a timetable for enlargement at the planned meeting of the alliance in December.

On the domestic front, Mr Havel said the Czech general election, due at the end of May, would be symbolic as the first to be held "without the revolutionary or post-revolutionary elements" that had held since the collapse of communism at the end of 1989.

"We now have a stabilised spectrum of political parties with their different platforms, so these are going to be real elections rather than elections that resembled referendums, as was the case before."

The most recent opinion polls suggest that the present centre-right coalition, which is led by the Civic Democratic party of the prime minister, Mr Vaclav Klaus, will remain in office, possibly with an increased majority.

The Czech Republic is virtually the only country in central Europe where voters are not expected to choose a government led by former Communist parties, as has already happened in Poland, Hungary and Bulgaria.

President Havel said the Social Democrats, the main opposition party, were "still experiencing some growing pains" and needed time to develop. Many Czechs believed, however, that "we should have a valid Social Democratic party as an alternative to the more right of centre parts of our political spectrum".

● Romania will apply for full membership of Nato this week, its foreign ministry said yesterday.

Kevin Done and Vincent Boland

French put emphasis on jobs

By David Buchan in Paris

France yesterday dispatched to its European partners its "social memorandum" calling on the European Union to make employment its "determining criterion for all initiatives, actions and spending".

Paris wants its memorandum discussed at tomorrow's Turin summit of EU leaders which will open the intergovernmental conference that is to negotiate revisions in the Union treaty. But most of its proposals do not seem to require any treaty revision, and could be pursued separately from the IGC.

"With the 18m Europeans out of work, and more than 50m threatened with exclusion [from society as well as the workplace], the duty of the EU is to respond to the preoccupations of its peoples," the memorandum says.

It wants the EU to examine the idea of promoting part-time working as a way of creating new jobs, and to take action, within its existing budget, on the 14 big trans-European infrastructure projects which have been hanging fire for several years now.

France says it also wants EU action to harmonise national legislation to crack down on "the production and trade in all forms of drugs", in a proposal clearly aimed at overcoming the Netherlands' resistance to altering its more tolerant attitude to drug users.

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Government asks treasury to prepare details of bonds issue

Italy to cover pension arrears

By Robert Graham in Rome

Italy's caretaker government has asked the treasury to work out details of bond issues over the next six years to raise L22,500bn ($14.4bn) to cover pension arrears awarded by a 1994 constitutional court decision.

The government has also decided to extend an amnesty on social security contribution arrears and to freeze temporarily a new pensions payment due to be made by certain categories of self-employed workers.

The measures, combined with the announcement of a treasury injection of some L1.500bn to recapitalise loss-making Banco di Napoli the main financial institution in southern Italy, come less than a month before the general election.

All the decisions are likely to have an impact on the 1996 budget, which aims to reduce the public sector deficit to 5.9 per cent of GDP. This week several economic forecasters predicted that the budget was likely to miss this target, not least because other measures have yet to come down.

The constitutional court decision ordering the payment of arrears dating back to 1983 on minimum pensions was ducked by the Berlusconi government in 1994 and nothing was done last year by the government led by Mr Lamberto Dini. A decision could not have been postponed much longer, although the government as a caretaker could have claimed it lacked the authority in the run-up to the April 21 elections.

Tradeable treasury bills will be issued in two tranches, the first of L12,500bn over the period 1996-98, and a second from 1999-2001. The details of the issue have yet to be worked out by the treasury.

The freeze on the move to impose a flat-rate contribution of 10 per cent of basic salary on certain categories of the self-employed is expected to lead to loss to the treasury of L900bn. The proposal for the surcharge met strong parliamentary opposition, and the government has now retreated. The suspension of the surcharge will apply to all those affected by the original decree for the first quarter.

However, an extended amnesty – in which people who pay a contribution to their social security contribution arrears can escape penalties – is expected to more than offset this loss.

Sweden missing Emu criteria

By Hugh Carnegy in Stockholm

Sweden's public sector deficit and public debt will remain at levels above the criteria set for inclusion in the planned European monetary union in 1997, the key year for qualification for Emu, the National Economic Research Institute forecast yesterday.

The forecast underscored the increasing pressure on Mr Göran Persson, the newly-installed Prime Minister, to include a new round of spending cuts on top of the tough budgetary measures taken over the past 18 months when the Social Democratic government announces its budget plans for next year on April 15.

Mr Persson, the former finance minister who took over as premier last week, repeated yesterday his determination that the budget deficit will be eliminated in 1998. He has insisted that Sweden will qualify for Emu, which is due to come into effect in 1999.

But NERI, the official state economic forecaster, said a recent cooling off in the economy would slow down the process of restoring the public finances to balance. It said GDP growth of 3 per cent last year was lower than expected because of a slowdown in the latter part of the year and that growth this year would only reach about 1 per cent, before recovering to 2.5 per cent in 1997.

The public sector deficit is set to shrink to 4.9 per cent of GNP this year – a big fall from 10.8 per cent in 1994 – in large part due to the effects of spending cuts and tax increases enacted by the Social Democrats to take SKr115bn ($17.3bn) out of the deficit by 1998. But NERI said the deficit would remain at 3.3 per cent in 1997 – outside the EMU targets set under the Maastricht Treaty.

Likewise, the public debt, which the government at one stage said would stabilise in 1995, will continue to grow this year to 81.9 per cent of GNP. NERI said it would decline to 81.7 per cent in 1997, but that remains far outside the Maastricht target of 60 per cent.

Mr Eric Asbrink, the new finance minister, is under pressure from the financial markets to include spending cuts of at least SKr16bn in the budget to keep the government on target. The finance ministry said yesterday the trend of improvement in the public finances had not been broken, but declined to comment on the need for more savings.

EUROPEAN NEWS DIGEST

Ukraine trims key bank rate

Ukraine's national bank has lowered its key refinancing rate from 98 per cent to 90 per cent, reflecting an improved outlook on inflation. Monthly inflation came down from a high of 9.4 per cent in January to 7.4 per cent last month. Annual inflation in 1995 was around 150 per cent, down from 401 per cent the year before. Economists expect another drop this month, and the 1996 budget passed by parliament last week forecasts monthly inflation of 2.4 per cent by year's end, giving an annual rate of 40 per cent. The budget, which also foresees a 6.2 per cent fiscal deficit, should permit renewed International Monetary Fund support. A $900m stand-by loan, including monies left undisbursed when the IMF withdrew support in January, is likely to be approved in mid-April.

■ Ukraine received 27 more warships of various classes from Russia yesterday, after continuing discussions on dividing the ex-Soviet Black Sea fleet. *Matthew Kaminski, Kiev, and AFP*

German inflation creeping up

Germany's consumer price inflation crept up to an annual 1.5 per cent in March from 1.4 per cent in February, the German federal statistics office said yesterday. Prices in western Germany rose 0.1 per cent, after a 0.5 per cent rise in February. The figures are preliminary. The office also released final data for February inflation showing prices across the whole country rose 0.5 per cent from January and 1.6 per cent from a year earlier.

Inflation is now close to a seven-year low, and many economists expect the Bundesbank to cut interest rates in response to the sluggish economy in the next few weeks, though probably not when it meets today.

■ German crude steel production fell 7.8 per cent in February from a year earlier, to 3.11m tonnes. In the first two months it fell 11.9 per cent, to 6.12m tonnes. *Reuter and AFX, Wiesbaden*

French warned against small car

The French advertising standards office yesterday warned the country's consumers against a postal fraud it said raised concerns about cross-border abuses of direct marketing. A British company called World Business Corporation posted letters to French consumers, sent from Malta but giving an address in the French city of Metz. They were told that they had won "the car of their dreams", a BMW Cabriolet, and needed simply to send a cheque for FFr159 ($31.36) to help cover administrative costs. In fact, they received an almost worthless miniature model of the car.

The *Bureau de Vérification de la Publicité*, an industry-sponsored body, condemned the campaign, and said it had received about a dozen complaints from French consumers in the last two weeks. It called on advertising bodies in other EU countries to act to stamp out such initiatives. *Andrew Jack, Paris*

Brussels probes Belgian aid

The European Commission said yesterday it had opened a formal investigation into a Belgian state aid scheme aimed at helping companies exposed to international competition. Operation Maribel versions 2 and 3 were estimated to have involved BFr11bn ($361m) cuts in social security contributions for companies, the Commission said. "Such aid carries a risk of altering the position of competing companies in other member states," it said.

The Commission also said the Italian authorities ought to recover L26.5bn (£11.12m) of state aid illegally granted to AltiForni e Ferriere di Servola, a steel subsidiary of a state holding company, in 1993.

The Commission allowed Italian state aid for the state-owned aluminium company Alumix, which is being taken over by Aluminium Co of America. It said it had approved a restructuring programme involving the injection of L400bn and the write-off of L1,500bn of debt because the company had returned to profitability. The Commission said it had cleared a third tranche of aid to Portuguese airline Transportes Aereos Portugueses in the form of a capital injection of Esc40bn ($262m). *AFX, Brussels*

Support for job quotas

The European Commission proposed legislation yesterday to assure employers that they can adopt schemes to boost the number of women workers hired or promoted, as long as they do not turn into rigid quotas. The text would bless plans that give preference to women – or men – if they are under-represented in a job category, provided employers can use some discretion in making the final decision.

The Commission said the measure was needed to clarify a European Court of Justice ruling that declared a German quota scheme illegal. "The Commission considers that the only type of quota system which is unlawful is one which is completely rigid and does not leave open any possibility to take account of individual circumstances," it said.

The Commission's text, which must be adopted unanimously by the 15 EU states before it becomes law, would permit employers to favour one sex over the other as long as they did not "preclude the assessment of the particular circumstances of an individual case". *Reuter, Brussels*

Shell 'knew of pollution'

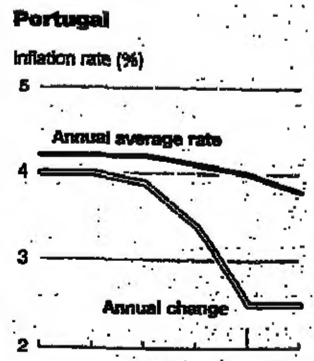
Turkey demanded several years ago that oil multinational Shell stop pumping polluted oil production water into drinking water deposits in the southeast, the environmental pressure group Greenpeace claimed yesterday.

Greenpeace officials gave reporters what they said was a copy of an Oil Directorate letter, of November 18, 1991, asking Shell to stop injecting the water into the Midyat deposits near the southeastern city of Diyarbakir and instead pump it back into redundant oil wells where it came from.

Turkish officials were not available to comment on the Greenpeace allegations. The environment ministry said in January it was examining media reports that Shell had polluted water in the southeast, but denied it was set to fine the company. *Reuter, Istanbul*

ECONOMIC WATCH

Portuguese inflation falling



Portugal's central bank said yesterday it was confident that annual inflation would fall close to the lower end of *the government's target of* 3-3.5 per cent by the end of the year. This would be about one percentage point below 1995 and virtually ensure Portugal met the inflation criteria for European monetary union. The annual inflation rate, which fell from 5.2 per cent in December 1994 to 4.1 per cent in December 1995, dropped to 3.8 per cent in February, according to the National Statistics Institute.

The year-on-year rate has fallen considerably faster, reaching a 30-year low of 2.5 per cent in February. Exchange rate stability was one of the main reasons for the slowing rate of price increases, said the Bank of Portugal. Falling inflation has enabled the bank to make cuts in money market rates, lowering the daily liquidity repurchase rate, the rate at which banks buy funds from the central bank, to 7.8 per cent from 7.9 per cent in the latest cut on Tuesday. *Peter Wise, Lisbon*

■ Greek industrial production rose 2.6 per cent year-on-year in December 1995, after a rise of 3.4 per cent in November.

■ Italian government debt reached L2,082,700bn (£862bn) at the end of 1995, compared to L1,937,400bn a year earlier.

Central bank governor seeks 'more regulated free market' to help fragile currency

Romanian banks may regain forex licences

By Virginia Marsh in Budapest

Romania's central bank governor admitted yesterday that last week's clampdown on the country's nascent foreign exchange market was a move backwards, but said it had been necessary to defend a currency "too fragile" to withstand an unruly interbank market.

In his first public comments on the bank's decision to limit the once 22-strong interbank forex market to just four local market-makers, Mr Mugur Isarescu said the central bank was likely to re-license other banks as dealers once it had established "a more regulated free market".

The central bank last week stripped all but the four of their dealers' licences, restricted them to trading only on behalf of clients within strict limits, and accused some banks, including the local subsidiary of ING of the Netherlands, of violating forex regulations.

Mr Isarescu said the interbank market – launched at the request of the International Monetary Fund in mid-1994 – had not functioned correctly partly because of the inexperience of local banks, and it had helped contribute to excessive depreciation of the leu.

He said the central bank would take a hard line with those making unauthorised capital transfers in and out of the country, adding that capital movements could aggravate the current account deficit, which could lead to even greater segmentation in the market.

"We were not prepared for total free foreign trade... It's the same with the foreign exchange market," he said.

The leu has fallen from 1,850 to the dollar one year ago to around 2,900 at present, in an interbank market dominated by powerful state banks. However, for several months licensed exchange houses and until last week most private sector banks offered rates of over 3,000 lei to the dollar.

Analysts attribute the weakness of the leu partly to last year's unexpectedly high external deficit and to inadequate official reserves.

Mr Isarescu said reserves had been run down in part because of extra energy imports necessitated by a harsh winter, but the bank hoped to lift currency reserves (excluding gold) to over $800m by the end of the year, up from $500m-$600m at present. This is due to come from the launch of Romania's first Eurobond and Samurai issues following the granting of international credit ratings earlier this month.

Mr Isarescu denied allegations that the central bank, which is under frequent attack from hardliners in the leftwing government, had acted under political pressure to prop up the leu in an election year.

Hardline Slovak law overshadows treaty go-ahead

By Vincent Boland in Prague and Virginia Marsh in Budapest

The Slovakian parliament has approved a bilateral treaty with Hungary after a year of haggling, but the move has been overshadowed by its adoption of anti-subversion legislation that critics claim violates civil rights.

The treaty, signed in Paris a year ago, had remained in limbo while Mr Vladimir Meciar, Slovakia's prime minister, tried to convince hardline nationalists in his coalition to support it.

They finally did so on Tuesday, but only after they had secured a new law on "protection of the republic", which bans "anti-constitutional" demonstrations and criminalises the spreading abroad of "false information harming the interests of the republic" on pain of two years in prison or a fine.

Fierce criticism of that law has drowned out the welcome for the ratification of the treaty, which Mr Meciar had hoped would mend fences with Hungary and the west. The populist Mr Meciar appealed last weekend for the European Union to be more "understanding" of Slovakia's troubled transition to democracy.

The treaty, which governs sensitive issues such as treatment of ethnic minorities in both countries and fixes their common border, was passed by the Budapest parliament last summer.

Hungary reacted cautiously to the Slovak parliament's ratification of the treaty. But it asked for clarification of whether Slovakia wanted to include in the treaty two additional measures.

One of these resolutions appeared to contradict a provision of the treaty granting national minorities the right to limited self-government in areas where they constitute a majority. Slovakia is home to a 570,000-strong Hungarian minority and the provision was one of the main sticking points in treaty negotiations.

Diplomats in Bratislava said the resolutions should have little effect on implementation of the treaty. But they said there was "a high degree of concern" about the anti-subversion law, which is open to subjective interpretation.

Mr Juraj Schenk, Slovakia's foreign minister, tried to put a brave face on the government's predicament by claiming the law was similar to legislation in, for example, Sweden, Germany and Belgium. EU diplomats said such comparisons were "gravely out of context".

Opposition leaders and the Roman Catholic church had also attacked the law for its "Stalinist" overtones. Mr Peter Weiss, leader of the opposition Democratic Left party, said it would further isolate Slovakia from the European mainstream and undermine the relationship with Hungary which ratification of the treaty promised to put on a new plane.

The law must be signed by President Michal Kovac, who has previously opposed other controversial measures adopted by Mr Meciar's government. Some observers said the president might refuse to sign it.

Brussels hails French plan to tackle urban blight

By Emma Tucker in Brussels

The European Commission has given the green light to a French scheme to revitalise blighted city areas using state aid, and has urged other governments to follow France's example.

The Ecu21m ($26.3m) package of measures is designed to tackle the growing crisis in France's most deprived city areas, suffering from violence, poverty and deprivation.

The scheme combines tax exemptions with the creation of local jobs, the hiring of more police and improved education resources. It targets some 300,000 young and unqualified people in areas of exceptionally high unemployment.

The Commission said that until now it did not have a framework for examining state aid intended for such urban renewal schemes, but planned to propose a general system before the summer which could serve as a general rule for other member states wishing to embark on similar schemes.

"The Commission hopes other governments will do similar things," it said. "We want others to draw inspiration from the French case."

The money will be used primarily as a fiscal incentive to attract small businesses to about 35 inner city areas – or at least to stay there.

For an area to qualify for aid under the scheme, its level of unemployment must exceed 14 per cent, more than 36 per cent of its population must be under 25 and at least 32 per cent of the population must be people over the age of 15 with no qualifications.

The French government hopes the funds will help to compensate companies for the considerable cost of relocating or staying in such areas, such as having to pay higher insurance premiums.

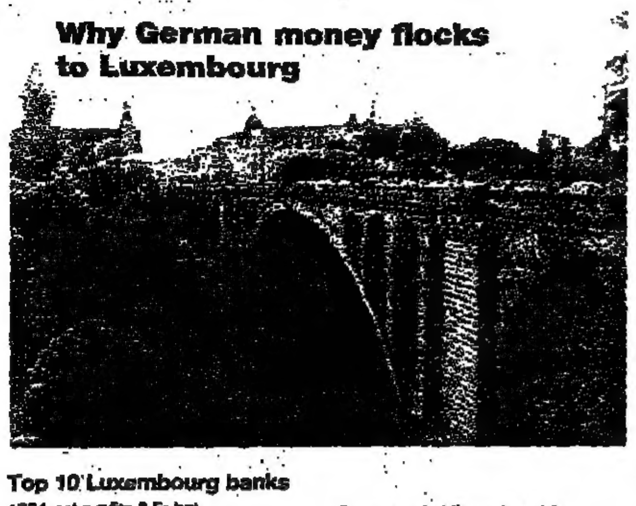
The money will be allocated following a public tendering procedure open to all relevant municipal authorities. Subsidiaries of big companies will not qualify for any fiscal support.

The plan was announced by Mr Alain Juppé, the French prime minister, in January.

He was responding to criticisms that the government had not carried out adequate consultation before launching its proposed social security reforms late last year. But the fiscal measures announced disappointed many critics who had been hoping for a "Marshall Plan" for the country's deprived suburbs.

Economic problems in France's urban region, often concentrated in characterless postwar suburbs, have grown over the last decade. Part of the plan includes the creation of 4,000 more police posts, many of whom will be moved from embassy guard duty and other ceremonial roles.

Why German money flocks to Luxembourg



Private German customers have long held accounts in the Grand Duchy. But only since Germany introduced a 30 per cent withholding tax on investment earnings in 1993 has this business grown so big. An estimated DM200bn-DM300bn has flowed into Luxembourg since the tax was introduced.

Mr Theo Waigel, Germany's finance minister, brought in the tax (with earnings up to DM6,000 a year exempt) after scrapping a 10 per cent levy that had dismayed financial markets. The constitutional court said a tax on interest and dividend earnings was required out of fairness.

The withholding tax (deducted at source in advance of the final tax payment) is not levied on funds abroad and it is not illegal to transfer money outside Germany if tax is paid when it is due. Thus the tax raids raise a new and tricky legal point through the argument – stated by courts in rejecting banks' appeals – that anyone sending funds abroad can be assumed to have tax evasion as a motive.

The matter could be solved simply – by requiring banks to report transactions automatically to the tax authorities, as in other countries. But this was regarded as a non-starter in Germany, where side-stepping taxes is a national pastime for the well-off. Bankers and tax experts say it would have damaged the capital market. The money left the country nonetheless.

Andrew Fisher

Top 10 Luxembourg banks
1994 net profits (LFr bn) (German subsidiaries in bold)

Bank	Net profits (LFr bn)
Commerzbank International	7.71
Deutsche Bank Luxembourg	5.90
Dresdner Bank Luxembourg	3.55
Kredietbank SA Luxembourgeoise	3.10
Banque Générale du Luxembourg	2.47
Banque Internationale à Luxembourg	2.23
Société de Banque Suisse (Luxembourg)	2.18
BfG Bank Luxembourg	2.03
Banque et Caisse d'Epargne de l'Etat	1.60
WestLB International	1.57

Source: Luxembourg Bankers' Association

Home away from home for Germans' money

But could banks be helping them use Luxembourg as a way to evade tax? Andrew Fisher reports

Luxembourg attracts German banks like bees to a honey pot. Five of the 10 biggest, including the three most profitable, have German parents. Of the 222 banks there, 72 are German, far more than from any other country.

But Luxembourg's attraction to banks, institutional traders and private customers has recently excited the interest of a new and less welcome group – German tax officials. In a series of highly publicised raids, tax inspectors have marched into banks and their employees' homes to seek details of private accounts. The aim is to find out whether German residents have evaded taxes and if banks have helped them.

In the words of one German inspector: "When someone climbs through a window to steal, there's usually someone holding the ladder." On the ladder is the customer suspected of evading taxes by sending money to the Grand Duchy, with its strict bank secrecy laws, or elsewhere. Holding the ladder is the bank employee. If tax officials and state prosecutors' suspicions are confirmed, many ladders have been propped up against many windows.

But banks vehemently reject this interpretation of their activities. It is not illegal to send money abroad, if tax is paid later, nor to take it out of Germany in suitcases, as many have done. "We can transfer a customer's money abroad," says a lawyer for one raided bank. "But we don't know what they do with it across the border."

The latest big bank to be raided was Commerzbank, the subject of a foiled blackmail attempt on the basis of a stolen list of 1,800 Luxembourg accounts which ended up with tax officials.

Others to have been raided include Dresdner Bank, Hypo Capital Management (HCM), Merrill Lynch of the US, Norddeutsche Landesbank and Trinkaus & Burkhardt. So far, the investigations – still at an early stage – have produced little, though some nervous citizens quickly decided it was time to bare their souls to the tax inspectors.

One banker says the authorities clearly made the raids as public as possible to prompt such declarations. "They were hoping to scare people out of the woodwork and get them marching to the tax authorities." Others say the raids were also aimed at deterring those contemplating use of foreign accounts, which tax officials admit. HCM lost 10 per cent of its customers after the raids.

Bankers feel they, their Luxembourg operations and customers have been unfairly tarnished and even "criminalised". The head of one German bank subsidiary there says: "Luxembourg has been pushed into a corner in a way it does not deserve."

Yet it was not private client business which at first drew German banks – led by Dresdner in 1967, followed by Deutsche in 1970 – to Luxembourg. The absence of minimum reserves then made it a favourable place to carry out big lending, financing, eurobond and other wholesale banking transactions.

Even though Germany has lowered its minimum reserves, Luxembourg still has an edge for the large-scale institutional and other financial dealings which form the bulk of banking activities there. The skilled multi-lingual workforce, excellent infrastructure and helpful administration add to the attractions. Deals can be agreed quickly.

As a result of Luxembourg's growth as a financial centre, nearly 20,000 people work directly in banking and up to 7,000 more in related legal, advisory and other activities. Banking and investment account for more than 15 per cent of gross domestic product and 40 per cent of tax revenues (including banks and their employees).

Thus the German tax raids have been viewed in Luxembourg with some concern. "Whether they solve the problem or create another big problem is far from sure," says Mr Pierre Jaans, head of the Luxembourg Monetary Institute, equivalent to the central bank. "We hear that some customers leave Luxembourg as a result. But they may leave certain banks to join other banks here."

He reckons only about a third of Luxembourg's total banking business comes from private clients. "There is often an exaggerated view of the importance of private banking." Certainly, it has stagnated since the raids. But he does not think they have harmed the Grand Duchy's reputation.

For really rich clients, Luxembourg is not necessarily the preferred investment centre anyway. "The old money was in Switzerland," says one German banker.

Bankers say average assets of people sending money to Luxembourg – much of which flows back into the German capital market – are DM500,000, typically *Mittelstand* (medium-sized company) owners rather than the super-rich.

Not all are dishonest or provoked by Germany's high income taxes into hiding their investment earnings.

But until European taxes are harmonised, a distant prospect, the problem will remain. The raids have certainly rung alarm bells in the minds of taxpayers, but many who have successfully evaded taxes will continue to do so. Meanwhile, banks wait to see who will be raided next.

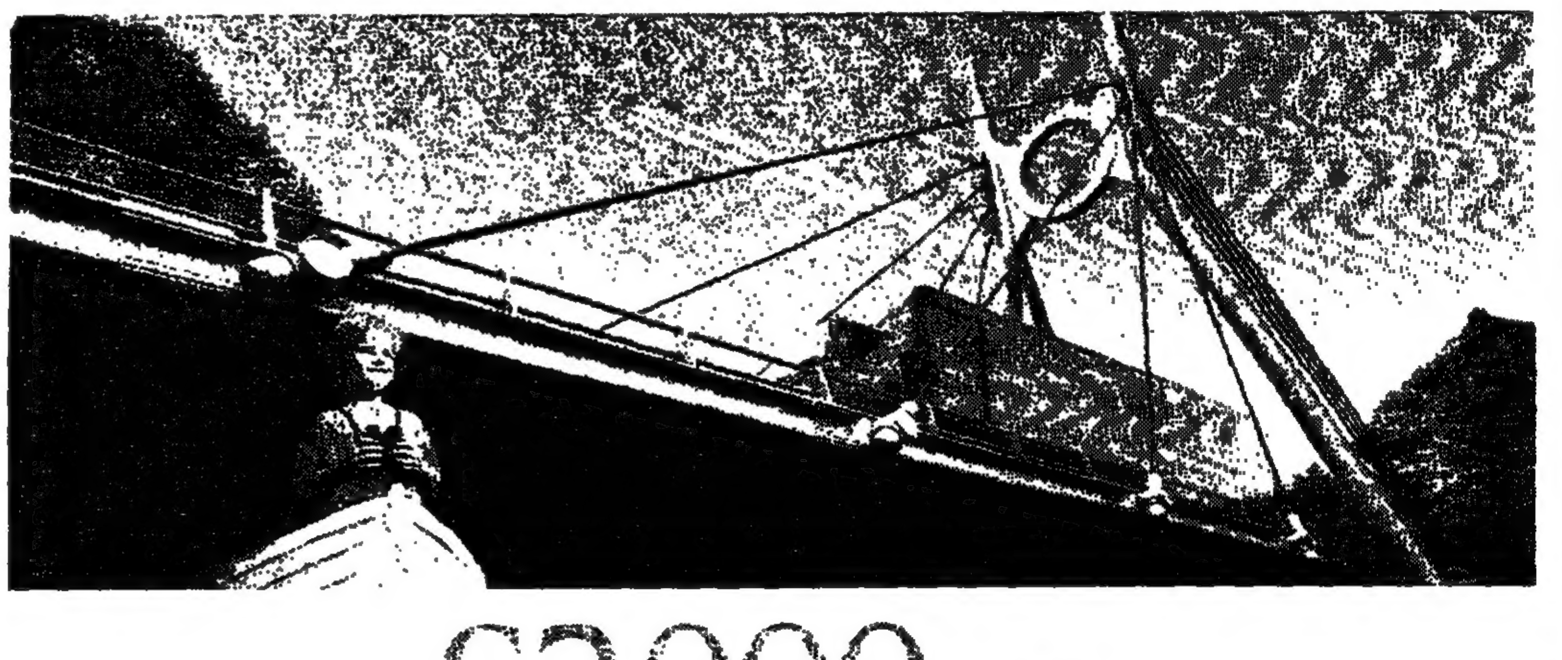
Poland to ease capital flows

Poland will liberalise capital flows linked to direct investment from April 1 and plans further dismantling of capital barriers for early 1997, Mr Krzysztof Kalicki, deputy finance minister, said yesterday, Reuter reports from Warsaw.

"There will be no limits on inflows and outflows of capital in relation to direct foreign investment," he told a news conference. The next step would be easing curbs on portfolio investment – planned from January 1, 1997 – allowing Polish citizens to buy stocks on international markets.

The liberalisation aims to facilitate Poland's entry into the Organisation for Economic Co-operation and Development this year. From April 1, Polish citizens and companies will be able to transfer foreign currency to OECD countries to buy at least 10 per cent of a foreign company's shares or purchase property abroad for economic activity.

Foreigners in Poland would be able to sell investment fund units, stock and securities with a maturity of longer than one year, after obtaining permission from the Polish Securities Commission, up to an overall total of Ecu200m ($250m) this year.



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FT/7/3

Bangladesh PM yields to opposition

By Mark Nicholson, South Asia Correspondent

Mrs Khaleda Zia, Bangladesh's prime minister, yesterday asked the country's president to form a neutral caretaker government to preside over fresh general elections in May, giving in to the central demand of the main opposition parties.

The concession promises to break a deadlock which has paralysed the country's political system for two years, led to an opposition boycott of general elections held on February 15, and plunged the country into sustained strikes and violent protests. The unrest claimed more than 80 lives and gravely harmed the country's fragile economy.

Mrs Zia called on President Abdur Rahman Biswas to form a politically neutral 11-member administration, to be headed by a "chief adviser", expected to be a former chief justice. The move follows Tuesday's passage by parliament, dominated since the boycotted poll by Mrs Zia's Bangladesh Nationalist party, of a constitutional amendment granting the president such powers. Officials in Dhaka said they expected the president to move swiftly to meet the prime minister's call.

The prime minister's move fulfils a broad pre-electoral pledge that she would use her party's inevitable victory in the boycotted and flawed February poll to create the "atmosphere" for fully contested elections. Mrs Zia then claimed she could not create a "neutral, caretaker government" while lacking a two-thirds parliamentary majority needed to make the necessary constitutional changes. But having won the boycotted poll with a sufficient majority she found she was unable to govern.

The three main opposition parties, the Awami League, the Jatiya party and the Jamaat-i-Islami, are likely to greet the move as an unalloyed victory for the street-based protests they have sustained since they first boycotted and later resigned from parliament over the issue last year, constitutionally forcing the recent poll.

"Khaleda Zia has accepted the concept of a neutral caretaker government," said Mr Mohammed Nasim of the Awami League. "Now she can expedite the process by stepping down immediately."

Opposition strikes and protests have in the past three weeks intensified to the point of making Bangladesh virtually ungovernable.

Troops were last week deployed at the country's main port of Chittagong to safeguard the country's exports, 60 per cent of which come from a garments industry that had already seen nearly a quarter of its factories close as orders dwindled due to strikes.

Alarm as China leans on HK civil servants

When a senior Chinese official said this week that Hong Kong's top civil servants must pledge support to a controversial appointed legislature which will replace the territory's elected body next year, alarm bells rang anew.

Mainland officials and pro-Beijing politicians in Hong Kong remained guarded about whether the statement by Mr Chen Ziying, deputy director of the Hong Kong and Macao Affairs Office, represented a firm policy. But the local press greeted the news with headlines such as "bombshell". Democratic politicians predicted damage to morale among the territory's 180,000 civil servants and stressed the importance of the administration's neutrality after the handover to Beijing.

Governor Chris Patten, who is strongly opposed to a provisional Legislative Council, warned that attempts to implement tests for civil servants would undermine the interests of Hong Kong and called for a clear line from Beijing. "If you do things to government before 1997 which damage its authority, that has consequences after 1997," he said.

Such responses reflect the vital role of the civil service in the transition process. The "one country, two systems" formula which underpins the handover and which is intended to guarantee autonomy for Hong Kong depends on the ability of the civil service to resist external interference.

"The civil service and particularly figures like Anson Chan will shoulder the burden of safeguarding the Hong Kong system," says one senior executive, referring to the head of the civil service who is backed by many officials and businessmen for one of the top posts after 1997.

Fears that senior officials will be pressed to support the provisional legislature, which is strongly opposed by Britain and Mr Patten, present a potentially acute dilemma for Mrs Chan and other government secretaries, such as Donald Tsang, financial secretary.

Given that the chief executive, the head of the post-1997 government, is due to be appointed during the autumn and will then determine the administrative team, conflicts of interest could paralyse the administration and jeopardise the chances of senior officials hurdling the handover.

The high stakes and concerns for civil service morale have prompted a measured response from senior officials. Mrs Chan, who expressed regret at Sunday's decision by China to replace the existing Legco, said that government policy was not to comment on "individual utterances". She stressed the importance of continuity and morale in the civil service and pointed to the criteria for the appointment of senior officials laid down in the treaties governing the handover.

According to these treaties the only pledge that senior officials must make is to uphold the basic law, the constitution for Hong Kong after 1997, and to be loyal to the Special Administrative Region, as the territory will then be known.

The problem, however, is that the basic law and 1984 Sino-British Joint Declaration on Hong Kong make no reference to the provisional Legco, which emerged from the failure of Britain and China to agree on a "through train" legislature and which has rapidly become the focus of dispute between Beijing, London and Hong Kong. This dispute threatens to spill into other key areas of the transition. And while the minutiae of Legco might seem remote to many, Hong Kong's senior civil servants, such as Mrs Chan and Mr Tsang, are well known and respected public figures. A perception that obstacles were being placed in their path would undermine confidence in the transition.

Mr Shen Guofang, China's foreign ministry spokesman, hinted that additional obstacles would not be constructed. "We judge Hong Kong people by whether they love the motherland and whether they support the basic law," he said. But the Legco issue will not be easily resolved and, in the tense diplomatic atmosphere it has created, more pot-holes may shake the journey back to China.

John Ridding

Beijing puts off Three Gorges issue of bonds

By Tony Walker in Beijing

China will defer for the time being the issue of bonds in international markets to fund its controversial $30bn (£19.5bn) Three Gorges dam, following a strong build-up in its own foreign exchange reserves.

Mr Guo Shuyan, vice chairman of the Three Gorges Project Construction Commission, said plans had been shelved to issue $300m of bonds in the Japanese and US markets.

"Because of the build-up of China's foreign exchange reserves we may be able to solve our funding problems on our own," said Mr Guo in an interview, "but of course this will depend to an extent on the availability of export credit."

The Three Gorges Commission, which is overseeing construction, had planned to issue $100m in bonds in 1995 and a further $200m this year. It estimates the cost of imported equipment, including generators and transmission lines, at about $3bn.

Mr Guo said the commission's ability to fund what will be the world's biggest hydro-power scheme from China's own resources would depend partly on the continuing healthy state of its foreign exchange reserves, which exceeded $70bn at the end of 1995.

He said the commission had not fully tested the international market for export credits because the Three Gorges project had not yet entered the phase where it needed a great deal of imported equipment.

It had borrowed $100m from the Bank of China to purchase trucks and heavy earthmoving equipment for the project's first stage, construction on which began in 1994.

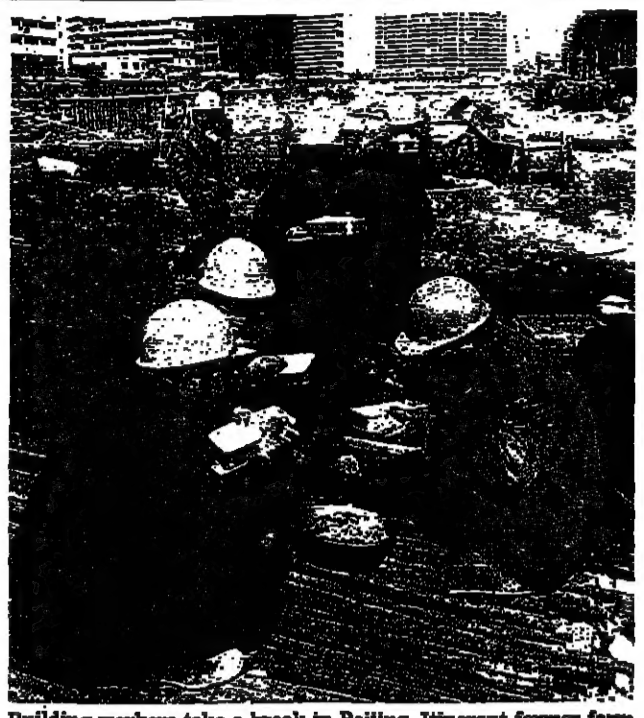
The Three Gorges scheme is due to be completed in 2009 with 26 generators producing 84.7bn kilowatt hours of electricity, equivalent to a ninth of China's national total in 1993.

The first two generators would begin operating in 2003, and by 2005 an additional eight would be in operation, at which point the project would become self-financing, according to Mr Guo.

The commission vice chairman was critical of opposition from the US National Security Council to the US Export-Import bank providing funding for the Three Gorges project. The administration is concerned about environmental consequences and displacement of people. Up to 1m people will have their homes inundated or otherwise made uninhabitable.

Eximbank's China window was closed for a month as a result, before reopening on Monday. "We don't find it very wise of the National Security Council to make such a decision," said Mr Guo. "From whatever aspect you look at it, the Three Gorges project will benefit the Chinese people and help modernise the Chinese nation."

Caterpillar and other US companies anxious to supply equipment to the giant project are lobbying the administration to reverse the National Security Council position.



Building workers take a break in Beijing. Itinerant former farm workers are taking part in city building boom across China *Reuter*

ASIA-PACIFIC NEWS DIGEST

Work starts on Manila railway

After years of bureaucratic in-fighting, work began yesterday on a mass transit railway in Manila which is seen as the long-term solution to the Philippine capital's worsening traffic problems. At the opening ceremony for construction of the 17km elevated urban railway President Fidel Ramos said the $660m (£430m) project would be funded entirely by the private sector under the country's build-operate-transfer (BOT) laws.

The mass transit system, which will link the capital's business district in Makati to key points in the city on a semi-circular route, will have a capacity of up to 1m passengers a day and will cut pollution levels by up to half, according to a study by the Asian Development Bank. The scheme is expected to be completed by mid-1998.

The Philippine government also said yesterday that work on a series of arterial transport schemes, including a 180km highway linking Manila to Clark air base and Subic Bay Freeport, the former US military bases converted into special economic zones, would get under way this year. The elevated rail project launched yesterday is part of the government's $4bn master-plan, drawn up by the ADB and Japanese government, to modernise and integrate Manila's transport system over the next five years.

A consortium to build the project, led by local groups including Ayala Land, the country's largest property company, and Fil-Estate Management, a Chinese-Filipino group, has sought a revision of commercial clauses governing the 25-year BOT contract. *Edward Luce, Manila*

Japanese stop-gap budget passed

Japan's troubled national finances were restored to order yesterday when the lower house of parliament approved a Y11,600bn ($71bn) stop-gap budget to fund the government for the first 50 days of the fiscal year starting next Monday. Agreement was made possible by the main opposition party's decision on Monday to lift a three-week parliamentary blockade, mounted in protest against an unpopular scheme to use public money for the liquidation of bankrupt *jusen* housing loan companies.

The stop-gap budget is scheduled for agreement tomorrow by the upper house, the final legislative stage. Parliament will then resume debate early next month on the full-year Y57,100bn budget, which contains the funding for the *jusen* plan. *William Dawkins, Tokyo*

■ The Tokyo District Court yesterday handed down the first verdict following last year's nerve gas attack on the Tokyo subway, jailing Mr Seiji Tashita, a 26-year-old member of the Aum Shinri Kyo cult, for seven years for helping to produce the sarin gas. *AFP, Tokyo*

Court rejects Kumaratunga line

The Sri Lankan appeal court ruled yesterday that two opposition-held provincial councils dissolved in January on President Chandrika Kumaratunga's orders were dismantled unconstitutionally. The ruling was expected to cause political embarrassment for Mrs Kumaratunga and her government before local government elections and a crucial referendum expected in the near future. Provincial governors dissolved the two councils in North-Central and Sabaragamuwa on January 3 after allegations of corruption and misuse of funds. Both councils were ruled by the United National party whose 17-year rule was ended by Mrs Kumaratunga's People's Alliance in the 1994 presidential and general elections. Local government elections have to be held by May. *Reuter, Colombo*

Dispute over 'temporary' judges

Pakistan ruling may spark crisis

By Farhan Bokhari in Lahore

Pakistan's judiciary has locked horns with the government in a dispute that threatens to provoke a constitutional crisis and is already throwing the country's legal system into turmoil.

The upheaval follows a supreme court ruling last week that appointments of "temporary" judges to superior courts were not valid because the chief justices of the four high courts and the supreme court were not consulted.

Successive governments over the past several years have chosen to appoint temporary judges, whose lack of tenure made them potentially more subject to political influence. They now number about a third of those serving in the higher courts.

The supreme court ruling came in response to a petition filed by a lawyer seeking to clarify the judges' position. Some legal experts say the judgment has opened the door for verdicts in a large number of legal cases over the years to be challenged on the grounds that they were handed down by temporary judges.

The government of Ms Benazir Bhutto, the prime minister, is waiting for a detailed written judgment from the supreme court bench before deciding how to proceed.

The ruling has been controversial even within the legal community. A meeting of Pakistan's largest bar association to discuss the issue yesterday ended in disarray after just seven minutes. Mr Khalid Ranjha, president of the Lahore high court bar association, called off the meeting of up to 300 lawyers at the Lahore high court. Lawyers opposed to the ruling attacked it vocally as anti-democratic, while those in favour shouted for its immediate implementation so that the supreme court's authority was firmly established.

Ms Asma Jehangir, Pakistan's best known human rights lawyer, says: "If the government openly defies this judgment there can be a complete constitutional crisis" and then a possibility of the government falling. But Ms Jehangir has also criticised the judiciary for taking a "politically motivated" decision which she maintains seeks to undermine the authority of the executive. "This judgment has come because of a background of political polarisation and politicisation of the judiciary."

Many lawyers refer to the long years of martial law when a judiciary appointed by former dictators such as General Zia ul Haq, the last military president, was used to harass civilian politicians. They say that the ruling would undermine the authority of the present democratic regime.

But others urge caution. Mr Ranjha said before the meeting that the decision could be a "catalytic agent" for a political crisis, especially if the government decided to defy the court's verdict by not consulting with the chief justices before further appointments. Mr Abid Hasan Minto, one of Pakistan's most respected lawyers, said: "If the government defies this judgment unnecessarily and does not implement it or does not seek its clarification, then they are heading themselves towards a political crisis."

The uncertainty since the verdict is undermining life in the country's higher courts. According to Ms Azra Qureshi, a barrister at the Lahore high court, "Ordinary clients are being affected because the (temporary) judges are staying in their chambers" instead of coming to courtrooms to hear cases.

Open market operations to start

By Tony Walker

China's central bank is expected to launch limited open market operations from next Monday in a critical step towards developing its financial markets and making its currency convertible.

In Beijing, an International Monetary Fund official said it would take several years for the Chinese to move to a fully fledged open market for treasury bills and other tradable instruments, but this marked an important beginning.

He said a shortage of treasury bills meant that, for the time being, open market operations would have a limited impact on monetary policy, but there were ways open to the authorities to enlarge the market by converting central bank advances to government into short-term paper.

Reuter quoted a Chinese economist as saying trading volume in treasury bills normally had to amount to at least 10 per cent of gross domestic product to enable the central bank to manage effectively monetary policy. China has about Yn80bn (£6.25bn) of treasury bills available for trading, less than 2 per cent of last year's GDP.

China's decision to begin open market operations in treasury bills and other instruments follows the establishment earlier this year of an interbank market for the Chinese yuan based on 35 regional trading centres. Reform of financial markets is a priority in the latest phase of China's modernisation.

Under the present system the central bank controls interest rates through the imposition of quotas on loans. Monetary policy has been largely the function of a planned economy with the imposition of credit ceilings in line with the national plan. But under a market-based system to determine interest rates and credit China would be taking a big stride towards building a modern financial system.

The IMF representative said China's financial sector reforms appeared to be proceeding according to plans laid down in 1993, including open market operation on an experimental basis. "This is a *bona fide* reform," he said. "The Chinese are moving quite rapidly to get market-oriented techniques in place. Everything they have done so far in terms of financial sector reform has by and large been successful."

China has said it plans to make its currency convertible on the current account by 2000, but Chinese leaders have indicated they are anxious to bring this target forward.

Japan takes many small steps to deregulation

By William Dawkins in Tokyo

The Japanese government plans tomorrow to unveil what promises to be a modest package of economic deregulation measures, likely to be in line with the low expectations of business lobbies and trade partners.

A ministerial panel yesterday put the finishing touches to a draft of roughly 550 economic deregulation steps, submitted by individual ministries over the past few weeks, the fourth such package over the past year. This is part of a three-year programme to April 1998, intended to curb Japan's perennially high business costs and barriers to competition, which are seen as a constraint on growth and a factor in the high trade surplus.

Officials of the Keidanren, the leading business federation, said the draft earned high marks for the sheer number of proposals, but ignored the most important deregulation points which it had proposed to the government.

According to advance announcements to the Japanese press, a series of financial deregulation measures are proposed - including some relaxation of foreign exchange trading procedures for industrial and securities companies, easing the listing rules for entrants to the over the counter market which operate in the service sector, and reducing the minimum unit price of commodity funds.

Financial market deregulation has been pushed hard by a formerly cautious Finance Ministry over the past year, in an attempt to stem the loss of capital market business to cheaper centres in Asia and elsewhere.

Other significant deregulation steps in the draft include greater access to local telecommunications networks for private telephone companies, fewer restrictions on imported building materials, and the easing of official price approvals for mobile phones.

Measures sought by the Keidanren but omitted from the draft plan include the lifting of a ban on holding companies, the removal of restrictions on the kinds of temporary jobs which employment agencies may provide and the relaxation of remaining constraints on foreign lawyers' freedom to work in Japan. A government panel has proposed delaying for another year a decision on whether to split up Nippon Telegraph and Telephone, the dominant state-controlled telecommunications carrier.

The draft is, however, rich with extremely small deregulation steps which are likely to have little impact on business costs. These include a proposal to allow an increase in the number of city-centre taxis, where there is already a surplus, and another plan to allow convenience stores to sell vitamin compounds, popular as hangover cures. Final details are to be approved at a cabinet meeting tomorrow.

Economists in Tokyo saw the draft plan as a sign that the yen's recent stability and the beginnings of economic recovery had reduced the government's sense of urgency in deregulating the economy. Policymakers "are not feeling a great deal of pain or fear," said Mr Robert Feldman, director of economic research at Salomon Brothers Asia.

While cautious, the draft package was "another step in the right direction," said Mr Richard Werner, chief economist at Jardine Fleming Securities: "Every little concession that they make is a reduction in bureaucratic power. They cannot move backwards."

Survey: Japanese Financial Markets, Separate Section; See Editorial Comment

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BIS outlines forex settlement risk strategy

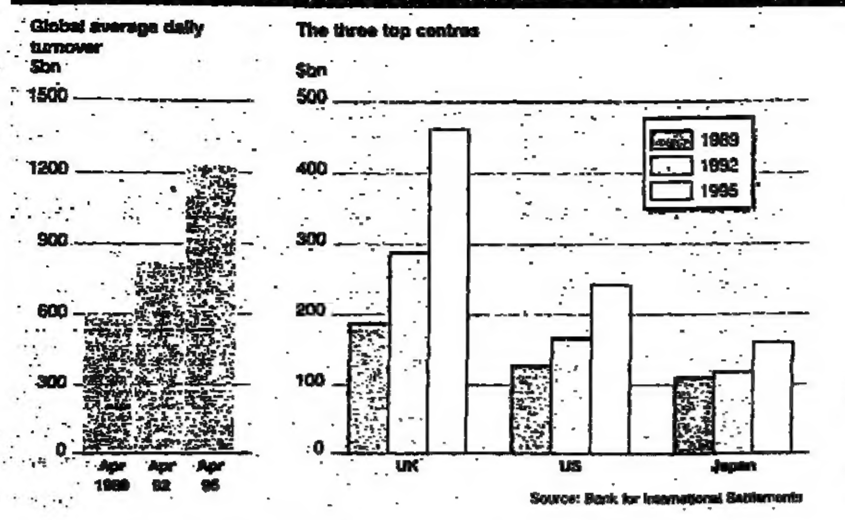
Concern has grown about payment exposure in a $1,230bn-a-day market, writes **George Graham**

When Bankhaus Herstatt, a small Cologne bank, collapsed in 1974, it cost its foreign exchange trading partners more than $620m in uncompleted deals and created a whole new category of risk for central bankers to worry about.

Two decades later, central bankers' fears about what has become known as Herstatt risk have been confirmed by banking crises such as the failure in 1990 of Drexel Burnham Lambert, the US investment bank, and the Bank of Credit and Commerce International (BCCI) in 1991, or the attempted coup d'état in Moscow in 1991.

Last year, their fears were revived again when the collapse of Baring Brothers, the UK bank, threatened to block the settlement of Ecu50bn (£39bn) of payments, even though Barings itself was involved in less than 1 per cent of them.

Foreign exchange turnover: strong growth continues



Source: Bank for International Settlements

The New York Fed's William McDonough yesterday
Forex settlement risk will go to the top of banks' agenda

In a report published yesterday under the auspices of the Bank for International Settlements, central banks from the main financial centres outlined a three-pronged strategy to be pursued over the next two years with the goal of substantially reducing the extent of settlement risk in the foreign exchange market.

The problem arises because payment mechanisms in different countries work in different ways and open at different times. A bank on one side of a foreign exchange deal may have handed over D-Marks irrevocably in Germany some hours before the US payments system can deliver the dollars it expects to receive in return.

That may seem like a small risk, but with an estimated $1,230bn changing hands daily in the foreign exchange market, even a small hiccup can create a massive liquidity problem. With the rapid growth of foreign exchange turnover, a Herstatt-sized failure today could run to billions.

Some banks say they routinely settle the foreign exchange trades worth more than $1bn with a single trading partner on a single day – and they can build up as much as three days exposure by sending irrevocable payment instructions to national payment systems before actual settlement.

That means that foreign exchange exposure to a single bank could rank in the billions – enough to shake even the largest and best capitalised of banks.

The strategy contained in the BIS report calls for:

- Individual banks to improve the management of their foreign exchange settlement exposures.
- Bank groupings to develop multilateral ways of reducing settlement risk by netting exposures (setting a single net payment rather than paying each amount in full) or by allowing "real time" settlement in which both sides of a trade are paid over simultaneously – known as payment versus payment.
- Central banks to improve their national payments systems and to press their domestic banks to stiffen their risk controls.

These goals are, on the face of it, well within reach.

Many banks, for example, already impose limits on their own exposure to other banks, or by date. Application of "best practice" across the industry could, the BIS calculates, reduce exposures by half or two thirds.

On an industry scale, too, netting arrangements such as FXNET and Echo are already in operation, while the Multinet clearing house bank hopes to start operations this year. More ambitiously, the Group of 20 leading international banks is planning the creation of a global clearing house bank to provide real time payment versus payment.

The BIS recommends that central banks extend a helping hand to such multi-currency settlement mechanisms, for example by providing credit facilities – even though it warns that central clearing banks on the scale envisaged by the G20 could create a serious drain on liquidity in many domestic money markets, with consequences for monetary policy.

But, to the evident irritation of the central banks, private sector bankers rank Herstatt risk considerably lower on their list of priorities than issues such as market risk, which are now absorbing big investments of time and money.

"Despite their considerable capacity to reduce FX settlement risk through individual and collective action, many banks remain sceptical about devoting significant resources to such efforts," notes the BIS report.

It complains of failure to recognise that banks can routinely incur significant settlement risks overnight and during weekends; a mistaken view that foreign exchange exposure represents less of a risk than a loan; and false comfort that major banks trading in the foreign exchange market are "too big to fail".

Where central bankers see Barings as a frightening warning of how close the Ecu clearing system, came to collapse, many foreign exchange dealers, by contrast, see it as proof that the market and the authorities can deal with a future problem of this kind.

The limited investment that many private sector banks are willing to invest in dealing with Herstatt risk may not be good enough to satisfy the central banks.

The BIS report's initial recommendation is that central banks should use "moral suasion" to encourage banks to adopt measures to control their settlement risk.

But it also suggests the possibility of supervisory guidelines on the measurement of foreign exchange settlement risks, regular confidential reporting and perhaps public disclosure of exposures.

If that does not prove enough, the report warns, central banks might also consider framing formal limits on foreign exchange exposures or including foreign exchange among the risks against which banks have to hold a capital cushion.

Bahrain's rulers take hard line on Shia unrest

By David Gardner in Manama, Bahrain

Bahrain's ruling al-Khalifa family said yesterday it would put on trial the Shi'a Moslem clerics it accuses of fomenting the increasingly violent campaign to restore constitutional rule.

Sheikh Mohammed bin Mubarak al-Khalifa, foreign minister, said the Gulf financial centre was determined to resist demands to reinstate the National Assembly dissolved in 1975.

He said "western-style democracy" would "divide rather than unite" Bahrainis. "We say openly: that won't work here. We are saying we have chosen our way forward...we're going to do it our way," he said in an interview.

Sheikh Mohammed was speaking a day after Bahrain carried out the first execution connected to the 16-month-long agitation, and as the government braced itself for a second night of rioting in Shi'a villages which opposition sources say has already claimed three lives.

The al-Khalifa have ruled Bahrain for more than two centuries. However, like the other absolute monarchies of the oil-rich but now fiscally strapped Gulf, they are under pressure to share power as Kuwait's al-Sabah royal family has had to do with an elected National Assembly.

Bahrain's Sunni Moslem rulers, however, have rallied support from neighbouring Saudi Arabia, from the US, which headquarters its Fifth Fleet here, and from the UK, the former colonial power.

The al-Khalifa claim that Iran's Shi'a Islamic revolutionary regime is manipulating the Shi'a majority to destabilise the whole Gulf, although they have so far produced no proof.

The leading Shi'a clerics are formally seeking only a Kuwaiti-style assembly – more an auditor than a legislature, before which appointed ministers must appear – and in this they are supported by sectors of the Sunni community.

But Sheikh Mohammed insisted that "we have a fundamentalist movement here which wants to govern, and not only in Bahrain."

He stopped short of saying Iran was behind this year's bombings of hotels, banks, and businesses in Manama, the Bahraini capital, saying "we don't want to escalate things".

But he said the agitation was clearly organised, its leaders trained, and supported financially by "certain foreign forces". He also complained about deported Shi'a clerics such as the charismatic Sheikh Ali Salman using London as a base to attack the government. "They use the language and the cover of democracy while their allies here use bombs," he said.

Sheikh Abdelamir al-Jamri and other leading Shi'a clerics now in jail would "be put on trial", the foreign minister said, and "there they will have to explain their role and who is behind it."

Mr al-Jamri is a former MP and was the government's main interlocutor in a "dialogue" last year, which gave Bahrain eight months of peace. The violence resumed in January, moving from the outlying Shi'a villages to Manama, after both sides accused each other of failing to honour their undertakings.

INTERNATIONAL NEWS DIGEST

Rabin's assassin jailed for life

Yigal Amir, the rightwing Jewish fanatic who assassinated Israeli prime minister Yitzhak Rabin last November, was jailed for life yesterday after being found guilty of murder. Presiding Judge Edmond Levy said the 25-year-old student had acted with "premeditation and astounding composure". Judge Levy said: "He is not worthy of mercy because he lost all semblance of humanity." The court rejected the defence claim that it was a case of manslaughter because Amir had meant only to paralyse Mr Rabin to stop the Middle East peace process. Amir described the proceedings as a show trial and told the court he "acted for the Israeli nation".

The report on security lapses of the day of the assassination is to be published today. *Julian Ozanne, Jerusalem*

Likud lurches further right

Israel's rightwing opposition Likud party lurched further to the right yesterday after two hawkish generals emerged as the party's most popular leaders in internal party primary elections. Retired general Yitzhak Mordechai, a newcomer to politics, topped the list of candidates to stand in parliamentary elections on May 29. In second place was Mr Ariel Sharon, a hardline former army chief and defence minister who was the architect of Israel's invasion of Lebanon in 1982.

On Tuesday the ruling Labour party elected four former generals in the top 10 places in its primary. Political experts said the results of both primaries showed the depth of security concerns following a spate of suicide bombings by Palestinian extremists. *Julian Ozanne, Jerusalem*

Rand plunges on Zulu fears

Fresh fears about the stability of President Nelson Mandela's post-apartheid government hit the South African rand and bonds yesterday. The rand slumped to 3.9875/90 against the dollar in late trade, a loss of more than four cents on the day, and the lowest level since February 21, when it touched an all-time low of 4.03. Foreign exchange dealers said the currency was hit by early selling from London with foreign investors unnerved by a planned march today to commemorate the killing of eight Zulus two years ago.

Today's march is seen as a potential flashpoint in the rivalry between Mr Mandela's African National Congress and the Zulu-based Inkatha Freedom Party (IFP). Police expect 10,000 Zulus, carrying traditional weapons in public in defiance of a ban last week, to join the march. *Reuter, Johannesburg.*
Survey: Investing in South Africa, separate section

Liberal to head Islam university

The leadership of Egypt's Al Azhar University, the most prestigious and oldest academic institution in Sunni Islam, has passed into the hands of Sheikh Mohammed Sayyed Tantawi who, as Egypt's Grand Mufti, was noted for his tolerance and liberalism. The appointment, made yesterday by President Hosni Mubarak, follows the death of Mr Tantawi's ultra-conservative rival Sheikh Gad al Haq Ali Gad al Haq.

Egyptian intellectuals view the government's choice as an enlightened attempt to turn back the conservative orthodoxy of Al Azhar which was encouraged by the former Grand Sheikh during his 14-year tenure as leader of the 1,370 year-old university. But some Islamic scholars believe that the appointment of such an overtly pro-government Grand Sheikh will serve only to undermine further Al Azhar's standing in Egypt and within the Moslem world. *James Whittington, Cairo*

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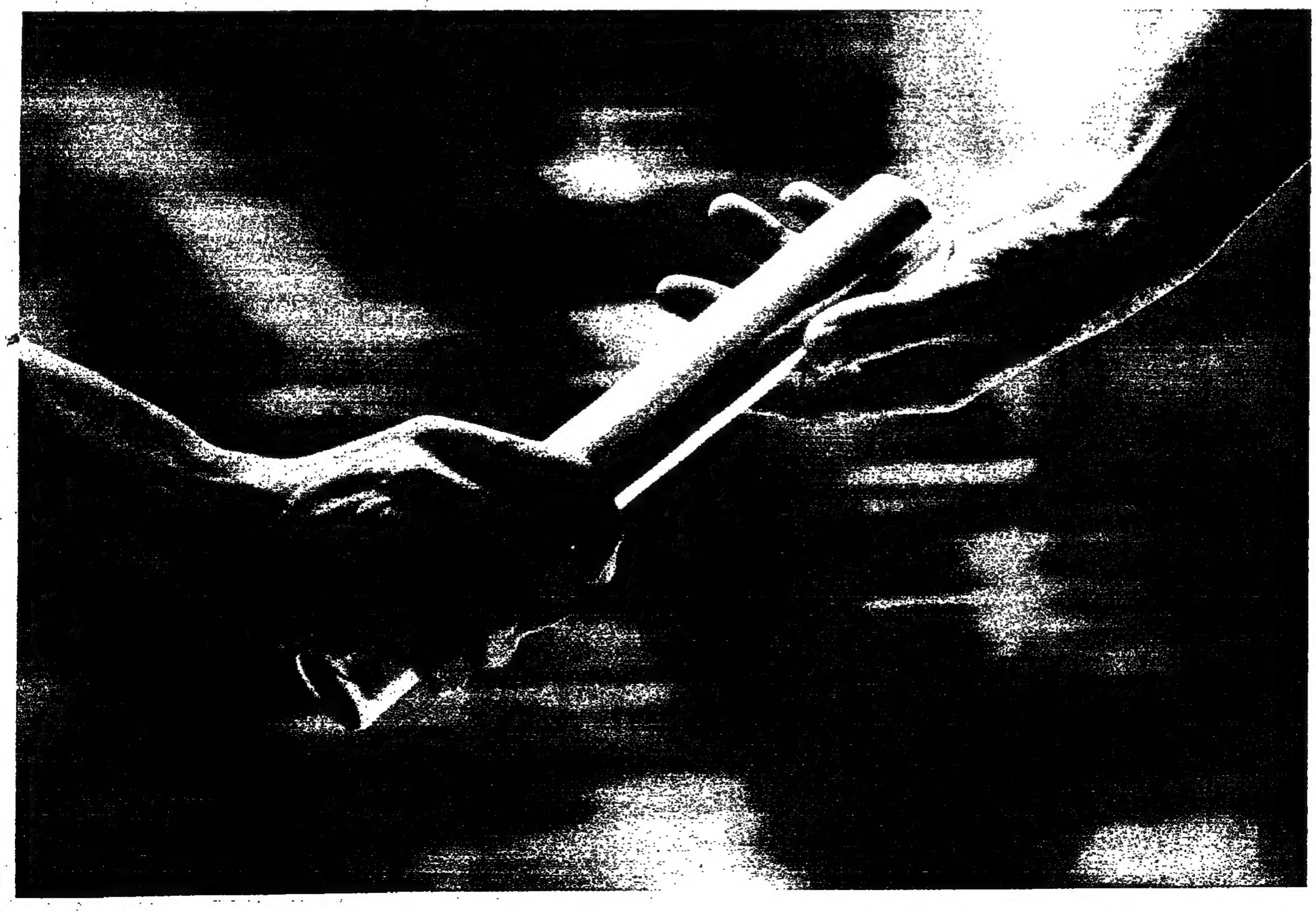

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NEWS: THE AMERICAS

Drugs makers face anti-trust probe

By Richard Waters in New York

Anti-trust authorities in the US have launched what could become a wide-ranging investigation into the way drugs companies set their prices.

The Federal Trade Commission inquiry is believed to have been triggered by a recent agreement by a group of drugs companies to pay around $400m to settle a civil anti-trust suit brought by small retail pharmacists.

However, the terms of the review have been drawn widely to allow FTC investigators to examine how the big pharmaceutical companies arrive at their prices for other customers as well.

A number of the 22 drugs makers named in the FTC's order authorising the enquiry maintained yesterday that they did not collude in setting prices. Schering Plough, for instance, repeated earlier assertions that its prices are arrived at "entirely legally" and are "determined in response to market forces."

Companies being reviewed include big non-US manufacturers such as Glaxo Wellcome, as well as big US manufacturers such as Merck and American Home Products.

The Federal investigation comes at a time when pharmaceuticals companies have begun to raise their prices in the US again, after a period in which most had held them level. Political pressure on the drugs makers from the early years of the Clinton presidency has receded, following the failure of the administration's healthcare reform plans.

The FTC's review follows an agreement by a group of large drugs companies to settle a claim from retail pharmacists that they had colluded in charging higher prices to pharmacists than they did to other, larger customers.

In an order authorising the inquiry, however, the agency's commissioners said its terms of reference covered whether the manufacturers were "engaging in unlawful concerted activities to raise, fix, maintain or stabilise the prices of pharmaceutical products in the United States."

Even if the FTC's investigation focuses primarily on prices charged to small pharmacists, it could prove more damaging to the drugs makers than the settlement they recently agreed. That settlement did not require the manufacturers to change their pricing practices in any way. Any action by Federal regulators, on the other hand, would almost certainly require a change in practice.

News of the inquiry prompted a broad fall in share prices among US drugs companies. However, some Wall Street analysts played down the significance of the review.

"I don't believe anything which will be uncovered will be to the detriment of the industry," said Mr Arvind Desai, an analyst at Mehta & Islay. "Pricing has been an individual company decision in the past."

Jurek Martin on why the plain sailing is over for the Republican candidate

Tricky task for triumphant Dole

US ELECTIONS November 5

Senator Bob Dole, no longer needing to win a single extra delegate to claim the Republican presidential nomination, now faces the tricky task of keeping alive public interest in his campaign in the months ahead. Following sweeping victories in Tuesday's California, Washington and Nevada primaries, he spoke of the "long dry spell" before the mid-August party convention in San Diego.

The Senate majority leader hinted he might float names of possible running mates and cabinet members in a prospective Dole administration "to keep people engaged." But with the remaining primaries, finishing with New Jersey in early June, inconsequential, most of his time will be spent in Washington in high profile legislative battle with President Bill Clinton, his November opponent.

Mr Dole's win in California – which has the largest delegate haul of any state, with 165 – put him way over the 996 delegates needed to become his party's nominee. Mr Pat Buchanan, the conservative commentator who was trounced in the western primaries, conceded Mr Dole had the nomination locked up. But he refused to withdraw from the race and continued to hint he could leave the party if his policy demands were not met.

Mr Ross Perot, the 1992 independent candidate, this week embarks on a nationwide speaking tour reminiscent of his activities before his declaration four years ago. Mr Dole believes another run by the Texas billionaire can only help Mr Clinton's election prospects.

An extensive exit poll conducted by the Los Angeles Times on Tuesday underlined some of the problems Mr Dole faces in the general election, especially in California.

About 35 per cent of Republican primary voters, mostly self-described moderates, said they would prefer Mr Clinton over Mr Dole in a straight match-up, with three in 10 opting for the president if Mr Perot were also on the ballot. An extrapolation of the poll found 53 per cent likely to vote for Mr Clinton, 32 per cent for the majority leader and 8 per cent for Mr Perot.

Retired General Colin Powell, whom Mr Dole, at the minimum, would like to entice into a cabinet, was the overwhelming favourite to be picked as Republican vice presidential candidate. By contrast only 6 per cent wanted Mr Dole to choose Governor Pete Wilson, an indication of how far the incumbent governor has fallen out of favour in his own state.

California also voted on Tuesday on several state-wide propositions. One of them saw a defeat for the National Rifle Association in the easy rejection of an initiative to permit resumed hunting of the mountain lion, banned by the electorate only five years ago.

The state also rejected three initiatives aimed at curbing the influence and income of trial lawyers. One, imposing ceilings on legal contingency fees, failed narrowly, but the other two, introducing no-fault car insurance and the "loser pays" provision in securities lawsuits, went down comprehensively.

Mr Tom Proulx, the driving force behind the propositions, said afterwards "we were bombarded by lies from the trial lawyers," who had been able to outspend his effort.

However, one of the other causes in which he is interested was boosted by the comfortable approval of an initiative creating "open primaries," in which registered Republicans, Democrats and independents would be free to cast ballots in whichever party election they wished. State leaders of both parties had campaigned against this.

Californians also appeared more willing to support public works projects out of their pockets. These ranged from building a new baseball stadium in San Francisco to multi-billion dollar bond issues for schools construction and the seismic reinforcement of bridges and freeways.

US sees a rebound after dodging 'recession missile'

By Michael Prowse in Washington

The US economy is rebounding after a sluggish period at the end of last year, Mr Alan Greenspan, chairman of the Federal Reserve, indicated yesterday in upbeat congressional testimony.

He spoke following the release of official data showing an unexpected 2.5 per cent decline in orders for durable goods last month. However, economists said the decline reflected an erratic fall in defence and civilian aircraft orders.

Mr Greenspan said the economy was "moving past the disruptions that had slowed it in previous months." Much if not all of a needed reduction in corporate inventories had been achieved. Restraining influences, including high levels of consumer debt, were "not so strong as to seriously jeopardise the continued expansion of the economy."

The Fed needed to remain alert to inflation risks. Recent data indicated "the economy should be able to continue operating at a high level of resource utilisation, sustaining growth without risking a reversal of progress that has been made toward the goal of price stability."

Private-sector economists generally agree with the Fed's analysis. "It looks as though we dodged the recession missile," said Mr Robert Dederick, economic consultant at Northern Trust, a Chicago bank. "We're preparing for the second leg of expansion."

The fall in overall orders last month followed a revised 0.6 per cent decline in January. However, analysts said the details were more encouraging. Excluding aircraft and defence goods (which tend to be highly volatile) orders rose 0.6 per cent last month. Orders for civilian capital goods excluding aircraft – a guide to investment trends – rose 3.7 per cent last month, following a 1 per cent gain in January.

Mr Greenspan cited a range of recent data pointing to healthy growth including increases in sales of cars and other retail goods, in housing starts, and in business spending on capital equipment.

Reports on inflation were also "reasonably encouraging." Consumer and producer prices had been well behaved while materials prices continued to edge down.

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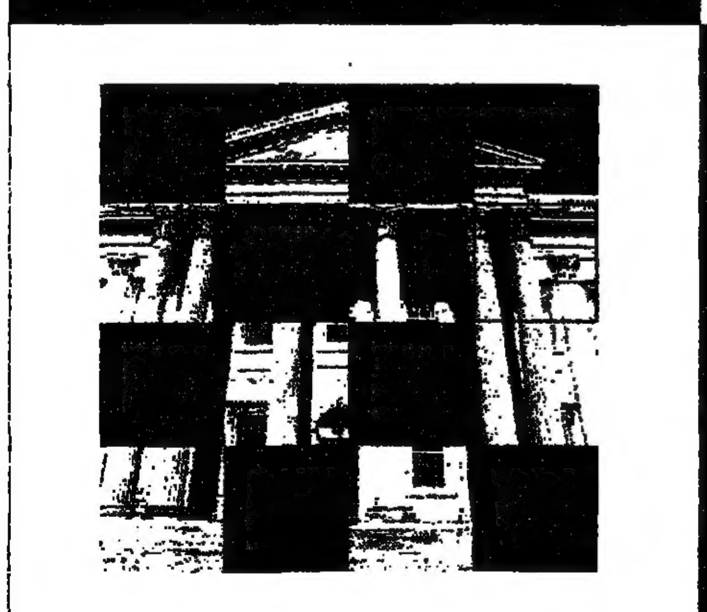

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STANDARD & POOR'S

AMERICAN NEWS DIGEST

Women-owned business boom

US women have been forming companies at nearly twice the rate of all businesses, and revenues at their operations have more than tripled over the past nine years to about $2,300bn, a report released yesterday said. The National Foundation for Women Business Owners said the number of women-owned businesses in the US has increased 78 per cent since 1987 to 7.95m. In contrast the total number of US businesses during the same period grew by 47 per cent, the group said.

The report underscores a trend that has largely been in place since the 1980s, when businesses multiplied and the increase was notably dramatic for women. "It's gratifying to see that the trend has continued," said Ms Julie Weeks, director of research at the foundation.

Sales at the women-owned businesses reached an estimated $2,300bn this year, up 236 per cent from 1987. Employment at women-owned businesses also grew an estimated 183 per cent over the nine-year period.

The report said that women-owned businesses now employ 26 per cent of the American work force, or some 18.5m workers. The report found women-owned businesses tend to be concentrated in the services industry, which accounts for 52 per cent of the total. *Reuter, Washington*

Samper denies cover-up plot

President Ernesto Samper of Colombia has testified that his government did not plot to cover up evidence of drug cartel contributions to his 1994 election campaign and that he had never made any deal with traffickers. Mr Samper also handed over documents and video tapes to support his claim of innocence and to show that he personally had led the government's fight against the drug cartels.

His testimony came on Tuesday night to Mr Heyne Mogollon of the congressional accusations commission, the only body constitutionally authorised to hear charges against a sitting president. Mr Mogollon, who spent nearly seven hours questioning the president, campaigned with him and also received some support from the Liberal party funds that he is now investigating. Proceedings have been opened against three cabinet ministers for alleged involvement in handling campaign drug funds and exceeding legal expenditure limits. *Sarita Kendall, Bogotá*

Canada curbs US wheat imports

Canada yesterday banned durum wheat imports from the US and restricted other wheat imports from several US states because of concerns about karnal bunt fungus, Canadian agriculture authorities said. Under the curbs, effective immediately, durum wheat imports are prohibited from all US areas.

Imports of other wheats and triticale, a hybrid of wheat and rye, were restricted from Arizona, Texas, New Mexico and California, states considered high risk areas for the fungus.

Canada imported only 4,000 tonnes of US durum wheat in 1995 but is a major exporter of wheat to the US. Durum wheat is used chiefly in making pasta.

The US agriculture department on Tuesday quarantined the state of Arizona, four counties in New Mexico and two counties in Texas in an effort to contain the effects of a karnal bunt infestation discovered in Arizona durum seed on March 8. Karnal bunt reduces yields and affects the taste and smell of flour. The fungus has never become established at latitudes north of the 35th parallel, Canada says. The Canada-US border is on the 49th parallel. *Reuter, Winnipeg*

David Packard (seated) and partner Bill Hewlett developing the audio oscillator in their rented Palo Alto, California, garage in 1939. The device, for measuring sound waves, gave their company its first commercial success with an order from Walt Disney. An automatic lettuce thinner and a shock machine to help people lose weight were among other early products. Hewlett and Packard had no grand vision of their company's technological direction, unlike many of their modern-day counterparts. They turned their hands to whatever kind of mechanical or electrical equipment customers required. "We thought we would [only] have a job for ourselves," Packard said last year. "That's all we thought about in the beginning...we hadn't the slightest idea of building a big company."

OBITUARY: DAVID PACKARD

Radical who built group with open management style

David Packard, a legend throughout the world electronics industry and one of the America's foremost business leaders and philanthropists, died on Tuesday at the age of 83 after a brief illness.

His death marks the end of one of the most enduring and successful business partnerships in the industry. Together with Bill Hewlett, Packard formed the company that bears their names in 1939 – starting out with just $538 in cash and working in a rented garage in Palo Alto, California.

Today, Hewlett-Packard has 100,000 employees in 120 countries. The company recorded revenues of more than $31bn last year and is a leading manufacturer of computers, printers and a broad range of electronic instruments used in industry, science and medicine.

An imposing, six-foot-five with a deep baritone voice, Packard led Hewlett-Packard as president or chairman from the date of the company's incorporation in 1947 until his retirement in 1993.

He was also active in government, serving as deputy defence secretary in the first Nixon administration from 1969 to 1971, and later as a trusted adviser and member of several government commissions. In particular, he helped to foster US business ties with China in the 1970s.

But Packard will be best remembered as one of Silicon Valley's first technology entrepreneurs. When they formed their company, Hewlett and Packard, who met as students at Stanford University, created in northern California the world's largest complex of high-tech industry – a trend thousands of others have followed in the past half-century.

Their influence on corporate America runs deep. Their legacy, and the achievement that Packard was most proud of, is a management style based on openness and respect for the individual that has became a model for the electronics industry and beyond.

From the outset, Hewlett and Packard believed that employees should have an opportunity to share in the progress of their company. They gave production bonuses to early employees, "and the same share was paid to the janitor as the top manager", Hewlett recalled in a 1992 interview. Later this evolved into an employee stock option scheme, that has become the standard for US high-tech start-ups.

"We both felt fundamentally that people want to do a good job," Hewlett said. "They just need guidelines on how to do it." The role of managers, they believed, was to lead, rather than merely direct.

"Some people know all the details of how to manage something, but they just don't have leadership capability. And that's one thing that's extremely important," Packard said last year, when his book *The HP Way: How Bill Hewlett and I built our company*, was published.

"We didn't want to have a 'hire and fire' company," Hewlett explained. At the time, their approach was radical. "Profit was a businessman's sole objective. Labour was considered a commodity that could be bought and sold on the market," Packard recalled in his book.

By contrast the "HP Way" is informal and open. They believed in "MBWA" – management by wandering around. And they rigorously practised an open-door policy. Even today, there are few offices with doors in Hewlett-Packard facilities.

> From the outset they believed employees should be able to share in the progress of a company

While numerous younger companies have imitated their management style, Hewlett and Packard were in other ways very different from the current generation of high-tech entrepreneurs.

They did not start out with big ambitions. "We thought we would have a job for ourselves. That's all we thought about in the beginning... we hadn't the slightest idea of building a big company," Packard said last year.

Neither did they seek financial backers. They were determined not to "operate on borrowed money," Hewlett said. They were also averse to risk. In the mid-1960s, for example, as Hewlett-Packard made its way into the computer market, Packard halted development of a high-speed computer which might have leapfrogged competitors. "It would have been way ahead of even the best computer today," he said 30 years later. But "we didn't want to gamble. Whether we should have, or not, it's too late to know... [but] it turned out well in the long run."

Hewlett and Packard had no "grand vision" of technological breakthroughs like many of their modern-day counterparts. Instead, they turned their hands to whatever kind of mechanical or electrical equipment customers required.

"Professors of management are devastated when I say we were successful because we had no plans," Hewlett said with a grin. "We just took on odd jobs."

Some were odd indeed. They included developing an optical device to flush a urinal automatically, and an automatic lettuce thinner, designed to thin out rows of vegetable seedlings, and a shock machine to help people lose weight.

But Hewlett-Packard found its niche with a device invented by Hewlett during post-graduate studies at Stanford University. The audio oscillator, for measuring sound waves, gave Hewlett-Packard its first commercial success with an order from Walt Disney for use in production of the cartoon feature Fantasia.

Later the company would become an early leader in the market for pocket calculators, despite Packard's scepticism. "We weren't sure we could make money on it," Hewlett said. He eventually persuaded Packard that if they could sell 10,000 they would break even. "Well, we sold something like 100,000 in the first year," Hewlett said.

Even outside their company, the two men shared many common interests, jointly operating cattle ranches in California and Idaho and regularly sharing family holidays. During Packard's final illness, Hewlett was a daily visitor to his friend's bedside.

Today in California the Packard name is associated with philanthropic activities. There is the Lucile Salter Packard Children's Hospital at Stanford, named after his late wife, and the Monterey Bay Aquarium, a research facility as well as a popular tourist attraction, funded by the Packard family foundation. Both Hewlett and Packard are also well known as benefactors of Stanford University.

For the past 30 years, the Packard foundation has distributed about $35m a year to support education, medicine, the arts and conservation. The trust will now receive all Packard's 9.2 per cent stake in Hewlett-Packard, worth about $4.4bn.

Editorial Comment, Page 13

Louise Kehoe

Cuba retreats behind hardline stance

By Pascal Fletcher in Havana

Cuba's leadership has responded to tougher US economic sanctions by retreating into a harder-line communist stance.

It says it will continue cautious state-controlled economic reforms, but will resist efforts or influences that seek to subvert, corrupt or divide its one-party socialist system.

Mr Raul Castro, defence minister, brother of President Fidel Castro and the number two in the ruling Communist party hierarchy, told the party's central committee at the weekend that Cuba should "combine our economic opening with ideological firmness".

The US this month tightened its economic embargo against Cuba in retaliation for the February 24 shooting down by Cuba of two civilian aircraft. The measures allow action in US courts against foreign companies benefiting from or "trafficking" in assets seized after the Cuban revolution.

In a separate report Cuba's leading economic strategist, vice-president Carlos Lage, said the US embargo would hurt the economy by putting a brake on fresh foreign investment. Investment had so far come mostly from Canada, Mexico, Spain and other European nations.

"Foreign investment is necessary, it is important and we have to promote it but it is not the essential factor in our economy," he said.

"We have to be clear in our minds that the main weight in our economy is, and will continue to be, the state," he said. "The decisive battle is to make state companies more efficient. . . socialism has to be efficient".

He cited without details, "isolated cases" of foreign companies and banks which had already said they would stop supplies and financing to Cuba because of the measures.

Mr Lage said that the economy, although still depressed, had grown 7 per cent in the first quarter of this year, thanks largely to a 45 per cent surge in tourism and recovery in the sugar sector, which was on track to produce a 1996 target of 4.5m tonnes.

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Peugeot chief demands new curbs on Japanese cars

Calvet: outburst

By Haig Simonian in London and Michiyo Nakamoto in Tokyo

Mr Jacques Calvet, head of France's Peugeot-Citroën cars group and chairman of the European Automobile Manufacturers' Association, yesterday demanded an indefinite extension of the five-year-old quota system limiting vehicle exports from Japan to Europe.

The quotas are due to end in 1999.

Mr Calvet's call came as the Japanese government and the European Union agreed to reduce the ceiling on vehicle exports to the EU this year to less than 1.066m units, against 1.071m in 1995.

Actual Japanese exports to the EU last year were just under 800,000, with many carmakers supplying European demand from plants within the EU.

Mr Calvet said the quotas on Japanese vehicles should be extended to include cars made by Japanese manufacturers in the EU.

He also took issue with the growth forecasts for European car demand used by the EU and the Japanese government in setting this year's export ceiling. He called the EU's forecasts for individual European markets "completely surprising".

According to Mr Calvet, who became chairman of the car manufacturers' association this year, the Japanese-EU market forecasts for European demand were more than 10 per cent above the industry's predictions.

Mr Calvet focused on rises in the quota for Japanese exports to four European countries where vehicle exports from Japan are particularly sensitive and closely monitored.

According to the Commission's breakdown, Japan's 1996 quota included 178,300 vehicles for Britain, 95,800 for France, 65,700 for Italy, 44,500 for Spain and 34,000 for Portugal. That would represent an increase of almost 18 per cent over 1995 in the case of Italy, 10 per cent in Spain, 8 per cent in France and 3.7 per cent in Portugal.

Mr Calvet's outburst highlights the continuing ability of Japanese vehicle exports to cause friction in the EU in spite of the fact that production from Japanese car plants in Europe has led to a sharp fall in exports from Japan.

Rising output by Japanese carmakers in Europe has been a major factor in reducing exports, which have also become less profitable because of the higher value of the yen. The 792,058 vehicles exported from Japan to the EU last year fell far short of the 1.071m unit quota, and exports have fallen significantly from the peak of 1.36m units exported in 1992.

Exports are expected to continue declining as carmakers boost local production. Toyota plans to more than double its UK capacity to 200,000 units by 1998 compared with 88,000 last year, while Honda expects UK production to reach 150,000 by 1998 from 100,000 last year.

This year's quota is based on an agreement that Japan would "monitor" exports to the EU until the market is fully liberalised after 1999. Vehicle demand in the EU totalled 12.858m units in 1995 against a forecast 12.966m.

The monitoring agreement was concluded in 1991 to "prevent market disruption and help EU producers prepare to meet the full force of international competition" when the agreement expires, according to the Commission.

The Japanese side consented to a reduction in exports this year, even though demand is expected to rise to 13.29m units from the 12.86m units forecast when the quota for 1995 was agreed.

● Japan's car exports were down 12.8 per cent in February from a year earlier to 254,552 units, the Japan Automobile Manufacturers Association said yesterday.

Taipei puts its reputation on the line

Everything has been done to allay fears about mass transit system, writes Laura Tyson

The first section of Taipei's mass transit system, the MRT, officially opens today after eight years of construction and controversy.

Such was the public cynicism, suspicion and unremitting negative publicity surrounding the construction of the 88km system of underground and elevated railway, that the city government took the unusual measure of delaying opening the first line for two years after its completion in order to patch up cosmetic flaws and allay public safety concerns.

In an effort to win public support, the authorities initiated a free, month-long trial on the first completed line, the Mucha line, a 10.5km stretch of elevated railway from the Taipei zoo to the Sungshan domestic airport. It was a great success: much to the surprise and delight of the capital's long-suffering commuters, the line was safe and convenient - and they loved it.

More than 1m passengers used the line during the trial period, some of them riding back and forth just for the novelty.

Until the trial, Taipei's mass transit system was regarded as something of a national joke, with many people saying they would never use it because it was unsafe. But the reviews have been glowing. Until now, residents along the line were forced to endure arduous rush-hour commutes of an hour or two by car or scooter through congested and smoggy Taipei. Now they can get to work in 15 minutes.

But it has been a long and tortuous process. Matra Transport, the French transport systems group, was awarded the turnkey contract for the Mucha line in 1988. The construction process was plagued by delays, accusations of corruption, allegations of shoddy construction and mafia involvement, huge cost overruns and the occasional disagreement between the government and Matra. Along the way, the total cost of the Mucha line, including land acquisition, Matra's fee and civil engineering work, rose from some T$16bn ($586m) to T$35bn.

The public's obsessive fears over safety, amplified in the media, meant that every aspect of the building process came under intense scrutiny. When, during test runs of the cars, the wheels caught fire on two occasions the media devoted months of negative attention to the event, although it was relatively minor.

Then it was noticed that visible cracks had appeared in the columns of the elevated track. Matra, which was responsible for the design but not the execution of the substructure, said that the design allowed for hairline cracks and these in no way posed a danger to the system.

Mr Swen Ker-li, spokesman for the government agency in charge of building the system, pointed out that the wooden beams in the imperial palace of Beijing's Forbidden City also had cracks yet the palace had lasted hundreds of years. All to no avail.

In the end Taipei's mayor, Mr Chen Shui-bian, elected in December 1994, called for a review of the Mucha line by a panel of international experts. Given the level of public apprehension, the panel decided that the cracks should be filled with epoxy and the columns encased in steel. This took nearly a year.

Before the safety fears there were disagreements between the contractors and the government. In October 1993 Matra Transport took the government to arbitration in a dispute over damages resulting from construction delays. The independent arbitration panel awarded Matra Transport 60 per cent of the amount sought. The decision was overturned by a Taipei district court after a counter-suit by the city government. Matra Transport has appealed to a high court.

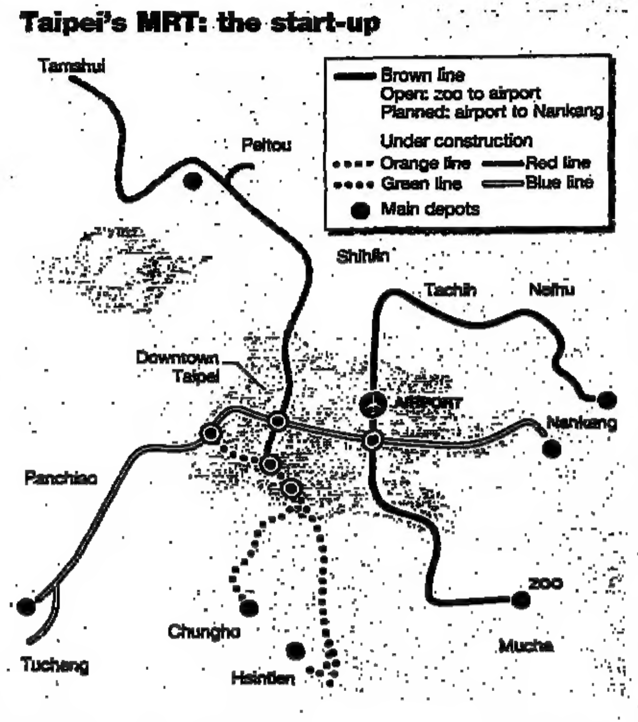
Mr Daniel Bourasseau, senior vice-president of Matra Transport, says the company is still owed 11 per cent of its fee for the T$7.56bn contract. Even if the compensation sought through the courts is awarded, the project will not be profitable, Mr Bourasseau says.

Matra Transport executives believe that the lesson learned from the project is that Matra should have had more control over the civil work. Mr Swen admits that the logistics of managing some 330 individual contracts involved in the Mucha line's construction, given language differences and differing technical specifications, was exceedingly difficult.

Despite the problems in Taipei, Matra has been invited to bid for mass transit contracts elsewhere in south-east Asia, including Singapore and Malaysia, and probably in South Korea, as well as in the US and Europe. Taipei residents can look forward to the opening of another line, the Tamshui line, on the system next year. Other Taiwan cities including Kaohsiung and Taichung also plan mass transit systems.

Manila railway, Page 4

Taipei's MRT: the start-up



Gingrich urges air talks with Tokyo

By Nancy Dunne in Washington

Leaders of the US House of Representatives are urging President Bill Clinton to put the liberalisation of air passenger services on the agenda of next month's summit in Tokyo with Mr Ryutaro Hashimoto, the Japanese prime minister.

The US and Japan were yesterday preparing to announce an agreement in air cargo services, but US officials were looking ahead to a second phase in air traffic liberalisation. A letter to the president, signed by Mr Newt Gingrich, the House Speaker, and Mr Richard Gephardt, the minority leader, urged new and "critical" talks to keep pace with the growth in bilateral trade and business partnerships. "The current restrictions on airline passenger traffic between the US and Japan limits every sector of trade between the two nations," they said.

A recent study by the Economic Strategy Institute, a Washington think-tank, said that because US airlines had faced competitive pressures created by airline deregulation, they now enjoyed a strong comparative advantage over Japanese carriers.

A 1993 survey by the International Civil Aviation Organisation showed the average operating expense of Japanese carriers to be 59 cents per mile; compared to 17 cents per mile for US airlines.

"With inefficient carriers, but a crucial hub location, Japan's ministry of transportation has used regulation to protect its airlines and attempted to give them the immense leverage that control of Asia's key hub entails," the ESI report says. "This has led to significant constriction of traffic through Tokyo."

Growth in the global economy has led to soaring demand for both passenger and freight services, the report said. The volume carried by the world's airlines has risen at twice the rate of real growth in the world economy over the past decade. It is expected to continue to grow at about a 6 per cent annual rate over the next 15 years, ESI said.

A powerful coalition, called Access US-Japan, of more than 500 business and labour organisations in the US is lobbying for the wider negotiations on air services.

Japan has failed to live up to the existing 1952 aviation pact by denying United Airlines of the US the right to fly beyond Japan, United said in a recent statement, urging Washington to insist that Japan honour its existing commitments "before we enter into new talks".

In Tokyo, Mr Jiro Hanyu Vice, the Japanese transport minister, said an agreement was extremely close that would enable Japan to achieve the equality in cargo transport rights it has been seeking for more than 40 years.

The two sides are expected to sign a record of discussion today forming the basis of a pact, he said, adding that it would give Japan Airlines equal rights with US carriers and airlines granted rights under an original 1952 pact.

Extra services would be allowed by both Japan's Nippon Cargo Airlines and United Parcel Service of America.

The US and Japan had set a deadline of March 31 for reaching an agreement.

● Philippine Airlines (PAL) yesterday said it opposed an Air France application to operate all-cargo flights on its Manila-Paris route, according to documents filed with the Civil Aeronautics Board, AFX reports from Manila.

PAL said that under the 1990 Philippines-France Memorandum of Understanding, any operation of an all-cargo or freighter service will be "allowed only upon a commercial agreement between the designated carriers of each country."

WORLD TRADE NEWS DIGEST

India complains over US quotas

India has invoked the formal dispute settlement procedures of the World Trade Organisation over US restrictions on its exports of woollen clothing, after the WTO's textiles monitoring body failed to settle the matter. The dispute concerns import quotas imposed by the US last year on Indian exports of women's and girls' wool coats, and woven wool shirts and blouses. India says the quotas breach WTO rules.

Washington yesterday blocked India's request at a meeting of the WTO's dispute settlement body (DSB) for the establishment of panels to investigate the complaints. However, under WTO rules, panels must be granted at the second time of asking, expected at a special DSB meeting on April 17.

US officials said yesterday the administration believed the restrictions on women's and girls' wool coats were no longer needed but wanted to discuss this with India. India says the US should simply rescind the quotas. India also said it had requested WTO consultations with Turkey over new restraints on textile and clothing imports since the start of Turkey's customs union with the European Union on January 1. Hong Kong has filed a similar complaint. *Frances Williams, Geneva*

EU drops VCR dumping inquiry

The European Commission is to abandon an investigation into the alleged dumping of video cassette recorders from east Asia on the European market, after uncovering no evidence of dumping and almost no evidence of injury. An official said Philips of the Netherlands had withdrawn its complaint on the advice of the Commission. The move highlights a growing trend in Brussels to treat dumping complaints with greater caution. "It is true that we are probably not allowing complaints to drag on if we think there is nothing in them," said an official.

The complaint about dumped products from Singapore was particularly sensitive as Thomson Consumer Electronics, the French state-owned company, produces VCRs in Singapore in a joint venture with Toshiba of Japan. *Emma Tucker, Brussels*

Chinese software piracy 'worse'

Piracy of computer software in China is worse than ever despite the year-old Sino-US accord committing Beijing to crack down on counterfeiters, according to the head of the US Business Software Alliance software industry group. Mr Robert Holleyman, president of the BSA, said: "We are seeing more pirated software, particularly in the form of pirated CD-Roms, than ever before. It is a problem that has as its primary source the increase in counterfeit production of CD-Roms in China."

Pirated software from China was "spilling into countries throughout the region and the world, displacing otherwise legitimate sales of computer software." The BSA, which lobbies the US Congress, groups personal-computer software makers including such market leaders as Microsoft, Lotus and Novell. "We have seen woefully little progress by the Chinese government in addressing the problem, so as a result, today, the problem is greater in China than it was a year ago," Mr Holleyman said. China and the US last year signed an agreement reinforcing protection of intellectual property rights, averting tit-for-tat trade sanctions. *Our Foreign Staff*

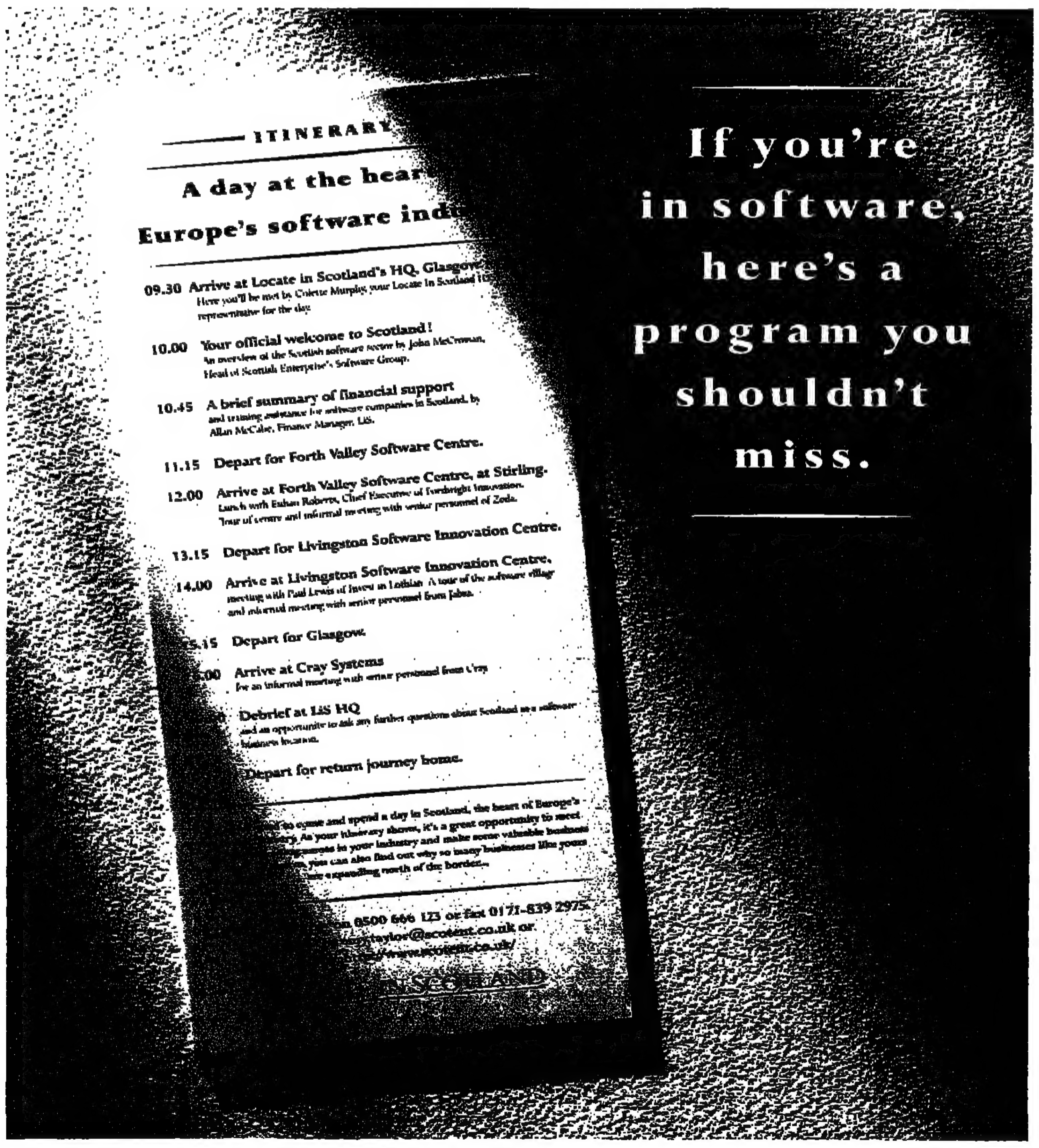
Australia and China in air pact

Mr John Sharp, Australia's new federal transport minister, said yesterday that agreement had been reached on updating the Australia-China Air Services pact, a move which could lead to a significant expansion in services between the two countries. Previously, only one airline from each country was allowed to fly the route once a week between Sydney/Melbourne and Beijing/Guangzhou.

"As a result of the new agreement, six airlines can now fly the route, and frequencies for each side are increased immediately to nine a week, and increasing in stages to 13 by 1998." Mr Sharp said. Brisbane, Perth, Shanghai and Shenzhen were to be added as airports open to both Australian and Chinese airlines. *Nikki Tait, Sydney*

■ United Parcel Service of the US has signed a Memorandum of Understanding with the Taiwan government to invest $400m to set up its Asia-Pacific regional air hub on the island. *Reuter, Taipei*

■ A US bearings manufacturer, The Timken Company, has formed a joint venture to produce bearings in China. The venture, in Yantai, Shandong province, is expected to start operations by the autumn. Timken manufactures engineered bearings and alloy steels. *Reuter, Hong Kong*



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'Mad cow disease': Minister backs campaign in Germany to stress health aspects of BSE-free supplies

Argentina sends team to promote its beef

By Jimmy Burns in London and David Pilling in Buenos Aires

Argentina has sent a team of senior government officials to Germany to help promote its beef as BSE-free amid fears that the general decline in demand throughout Europe is threatening the country's export sector.

"Our objective is to carry out a worldwide campaign and to invest in convincing people that Argentine meat is different," said Mr Felipe Solá, secretary of state for livestock, agriculture and fisheries. "We want to promote the health aspect of it because its other qualities such as taste are already well known."

The decision to promote Argentine beef more aggressively as "healthy" was taken at a meeting earlier this week between Mr Solá and representatives of Argentine farmers and meat exporters.

The country's cattle are almost all grass-fed, and the use of hormones and fertilisers is far more limited than in the US and Europe. Argentina will thus emphasise the "organic" nature of its meat and target European consumers, initially in Germany, by stressing the BSE-free nature of Argentine meat products.

Argentina took a similar initiative during an earlier BSE scare in Britain in 1989-90, with the government investing more than £1m in a Europe-wide advertising campaign. One London meat trader this week described that as a waste of money because it had no noticeable impact on Argentine exports.

Initial optimism in the Argentine farm sector that the UK's BSE scare would provide new opportunities for beef exports to the UK and other parts of Europe has faded in recent days as consumption has declined.

Mr Solá said the scenario for Argentine meat "was not exactly rosy" because of the general decline throughout the European Union. He also said it might be difficult to penetrate the German market where "lobby groups worked very quickly" against unwanted competition.

Under the so-called Hilton quotas, Argentina is allowed to export 28,000 tonnes of chilled quality beef a year to European Union countries. Some traders fear that the quota may not now be met if demand continues to drop. Germany and the UK are the two biggest EU importers of Argentine beef.

Argentina's meat-exporting sector has recently been encouraged by the prospect that the country will soon be given a clean bill of health on foot-and-mouth disease by the World Trade Organisation. Farmers have spent an estimated $100m on a vaccination programme and there has been no outbreak for nearly two years. The US has agreed to an import quota of 20,000 tonnes of fresh Argentine beef. Argentine officials are hoping the start of US imports, expected later this year, will trigger other orders from lucrative markets in Asia.

Mr Domingo Cavallo, Argentina's economy minister, said this week that if the country had made a strong effort to eradicate foot-and-mouth disease earlier, it would now be in a far better position to take advantage of opportunities presented by the BSE scare.

Mass-slaughter policy is 'a logistical nightmare'

By Jimmy Burns

Any large-scale slaughter of cattle in the UK would present huge practical problems for the industries involved.

Even the "softer" option being considered by the government – focusing initially only on the 12,000-15,000 older dairy cows which are normally slaughtered each week at the end of their productive life – presented a "logistical nightmare", Mr Bob Stevenson, president of the British Veterinary Association, said.

"There has never really been any contingency planning because the government never expected this to happen," he said.

A Ministry of Agriculture official confirmed yesterday that the UK's 10 licensed livestock incinerators did not have the capacity for a policy of mass slaughtering.

Existing abattoirs could not be used because they are only licensed to slaughter cattle for human consumption.

The government also does not have the option open to it during the outbreak of foot-and-mouth disease in the 1960s when cattle were burnt on open ground on the farms.

Apart from environmental concerns, the scientific advice to government is that such burning of BSE-infected cows still risks entering the food chain by contaminating the land.

Mr Stevenson said that any policy of destruction would "put considerable strain" on some 5,000 government-approved veterinary inspectors who would get involved when farmers had separated cattle to be killed from the rest of the herd.

Normally dairy cows used subsequently for meat produce are slaughtered by a pistol-fired bolt to the head, after first being stunned by an electric shock.

But that cannot be done on suspected BSE cows because of the risk of spillage from the brain which is the focus of infection.

Instead the government would have to approve a nationwide programme under which vets would inject thousands of cows with a lethal solution before incineration.

The Meat and Livestock Commission yesterday described the implementation of any kind of slaughtering policy that would adequately restore consumer confidence as "mindblowingly" difficult.

It suggested that the government would have to consider an emergency plan involving the construction of additional incinerators.

"No one in the industry seems to have previously thought about how to deal with BSE on this scale," a spokesman said.

A call for the slaughter and incineration of up to 15,000 older cattle a week has been made by the UK's National Farmers' Union, but on the assumption that the European Commission would provide substantial funds for the estimated annual cost of £700m.

Meanwhile the government was yesterday facing renewed pressure from the rendering industry, to provide funds for the clearance of animal waste material that has been piling up at slaughterhouses.

The UK Renderers Association has warned that the whole industry could soon be at an effective standstill.

The flag hanging outside a butcher's shop in Vienna yesterday said: "We stock only quality beef from Austria"

Crisis 'is threat to thousands of jobs'

By Robert Taylor, Employment Editor

Tens of thousands of British workers could lose their jobs as a result of the beef crisis, the Transport and General Workers' union said yesterday. Most of the 6,500 workers at cattle abattoirs were expected to be either laid off or on short-time work by the end of the week, it said.

Union leaders want workers who are made redundant to receive cash compensation from the UK government or European Union in the same way as farmers will be paid for the loss of their herds.

Mr Barry Leathwood, leader of the farmworkers' section of the TGWU, said yesterday he had written to Mr Douglas Hogg, the agriculture minister, calling for cash support.

"While ministers discuss compensation for farmers who lose because of the crisis in the beef industry, we believe protection for farm workers is at least as important," he said.

The union is monitoring job losses in a national survey. Although the TGWU said it was too soon to assess the numbers of workers who could be made redundant as a result of the BSE crisis, hundreds had already been laid off.

Mr Leathwood said jobs were threatened in dairying, stock-handling, slaughtering, meat-processing and haulage, as well as retail distribution. The TGWU has 50,000 members in the beef industry which is estimated to employ as many as half a million.

The union called for a public inquiry into the causes of BSE and the possible link with CJD. It wants the monitoring of food safety transferred from the Ministry of Agriculture, Fisheries and Food to the Department of Health and independent Health and Safety Commission. The TGWU also said it favoured independent research into the risk of workers in farming and food processing contracting CJD.

British commissioners prompt EU rethink

By Caroline Southey in Brussels

The intervention of UK commissioners Sir Leon Brittan and Mr Neil Kinnock led the European Commission to make concessions to Britain yesterday on the BSE crisis. The Commission formally endorsed a worldwide ban of British beef, but included a commitment to provide aid for UK farmers.

For the first time since announcing the impending ban on Monday, Mr Franz Fischler, EU commissioner for agriculture, emphasised the Commission's "solidarity" with the UK, promising to "consider any means of assisting the UK" to overcome the crisis.

Mr Fischler also underlined the fact that the ban was "provisional" and that it would be reviewed at the latest in six weeks. The possibility of an earlier review remains open if the British government, in consultation with the Commission, takes steps to restore confidence in the beef market.

The new promises reflect a dramatic change from Mr Fischler's initial announcement on Monday, when he talked of "ring-fencing" the UK and deferred questions on aid for British farmers. EU officials confirmed that the changes were because of efforts by Sir Leon, EU Commissioner for trade, and Mr Kinnock, transport commissioner.

The two first signalled their opposition to Mr Fischler's proposal on Monday. The next day they had an hour-long session with Mr Fischler, followed by a meeting of all three with Mr Jacques Santer, president of the Commission.

Mr Santer endorsed arguments made by the British commissioners that the Commission should "extend a hand of friendship" to Britain, an EU official said.

"The strongest argument was that this was an opportunity to show the Euro-sceptics that if the UK was not in the EU, there would be no recourse to any assistance," the EU official said.

Sir Leon's spokesman said the commissioner had "emphasised that the Commission could not just ring-fence the UK. His argument was - 'it's your problem, it's our problem'".

An official close to Mr Kinnock said he had "clearly made a difference. It is quite gratifying. The message we wanted to convey was that the Commission was prepared to reach out to the British people".

The official said Mr Kinnock's intervention had been aimed at ensuring the Commission's "presentation was got right" and that there was a clear message that the Commission wanted to work "constructively with the UK in solving the problem".

The EU official said the two commissioners would "prevail on the British government to act to restore confidence" in the beef market.

Two insurance policies giving cover against Creutzfeldt-Jakob disease were launched in Britain yesterday with the aim of filling gaps left by other insurers, Our Insurance Correspondent writes. The private medical insurers Bupa and PPP this week said their policies were aimed at acute treatment rather than chronic illnesses such as CJD.

Millennium Insurance Management Services, which acts for a Lloyd's of London syndicate, said its policy would pay a lump sum of £10,000 ($15,300) on diagnosis of CJD for a £40 annual premium. Mr John Wakefield, Millennium's managing director, said diagnosis might be possible before death. The company was prepared to be innovative and might consider discounts for long-term vegetarians. Separately, Goodfellow Rebecca Ingrams Pearson, a broker, said it was offering policies paying £25,000 for an annual premium of £10.

Government rejects ERM in favour of inflation targets

By Gillian Tett, Economics Correspondent

Government officials will fight suggestions that the UK should be forced to enter a new exchange rate mechanism, and are calling instead for a strict European system of inflation targets.

The inflation targets idea is currently being developed at the Treasury and Bank of England, the UK central bank. The idea is a central to the British stance in private discussions taking place between European governments a single currency. UK officials are likely to unveil more detailed proposals when European finance ministers meet at Verona in Italy next month.

The UK move comes as some EU states step up demands that countries outside a future single currency – including the UK – should be forced to link their currencies to the euro. French and German officials held a bilateral meeting on Tuesday to prepare for the meeting in Italy. The French claimed that both countries now agreed on the need for a new ERM.

Mr Kenneth Clarke, chancellor of the exchequer, is to talk about the moves towards a single currency today to the House of Lords, the unelected upper House of parliament. However, Treasury officials are vehemently opposed to the French plans.

UK officials accept that an ERM structure might be useful for other countries. But the humiliating exit from the mechanism by Britain in 1992 has left some British officials more opposed to a new ERM than to a single currency.

With the issue threatening to be deeply divisive at the Verona meeting, UK officials are trying to regain the offensive by proposing an inflation target instead of an ERM.

The proposal would require countries outside a single currency to adhere to a tight inflation target, probably in the region of 2 per cent. To ensure this was enforced, their policies for meeting the target would be monitored by other countries and the European central bank. The UK insists this strictly applied inflation target would prevent the devaluation of currencies outside the single currency.

However, the argument is unlikely to satisfy most other EU countries. Without an exchange rate target to link currencies to the euro, French officials fear that countries outside the future single currency would devalue, allowing them a price advantage.

Calls for a new ERM are supported by most of the other EU countries which are likely to be outside the first wave of single-currency members.

Journalist wins European Court battle over sources

By Robert Rice, Legal Correspondent

A British journalist threatened with prison and fined £5,000 ($7,650) for refusing to reveal his sources yesterday won his case at the European Court of Human Rights. The decision means the government will have to change the 1981 Contempt of Court Act to provide greater protection for journalists and their sources.

Finding the government guilty of breaching the European Convention on Human Rights, the court in Strasbourg, France, said journalists threatened with jail for obeying their consciences should be entitled to compensation.

"The protection of journalists and their sources overrides the importance of protecting private property," the judges said. The landmark ruling was a victory for journalist Mr Bill Goodwin who was fined in 1990 for disobeying a court order to disclose the the source of financial information about Tetra, a computer company.

When Mr Goodwin, then a 23-year-old trainee journalist on The Engineer magazine, phoned Tetra to check the details, the company realised the information came from a draft of its confidential corporate plan, which had been missing since November 1989.

The company obtained a High Court injunction preventing publication of the information and ordering Mr Goodwin to disclose his notes. That decision was upheld by the Appeal Court and the House of Lords.

But the Strasbourg court said that forcing journalists to name their sources was an unjustified interference with the right to freedom of expression guaranteed under the human rights convention.

After the ruling, Mr Geoffrey Robertson QC, Mr Goodwin's barrister, said the government had "a moral obligation to arrange a royal pardon for Bill Goodwin, so as to obliterate the finding that he was guilty of contempt for obeying his ethical duty as a journalist".

Calling for Britain to adopt a Bill of Rights, he said the decision had shown starkly how English lawyers were trained by English law to put property rights before human rights.

Mr Robertson said Mr Goodwin, who was backed by the National Union of Journalists, had not sought compensation but the government was ordered to pay his legal costs of £37,000.

The Lord Chancellor's Department said the government would look again at the contempt of court legislation "to see that it strikes a proper balance between the right to freedom of expression and the importance of ensuring that court orders are obeyed".

Official target to cut drinking set to fail

By Mark Suzman, Social Affairs Correspondent

Government targets for reducing heavy drinking and smoking by the year 2000 are unlikely to be met, official figures indicate.

According to the General Household Survey, conducted annually by the Office of Population Censuses & Surveys, British people are drinking and smoking less, but the decline is slowing and middle-aged men and younger women are bucking the trends. If this continues, the government is unlikely to meet its targets of reducing the number of smokers to 20 per cent of the population by the year 2000, and of cutting the proportions of men and women drinking more than the recommended limits to 18 per cent and 7 per cent respectively by 2005.

The survey also shows that the British are becoming better educated, live in smaller households and own more consumer durables.

About 27 per cent of adults aged 16 and over were cigarette smokers in 1994, the study found, down from 28 per cent in 1992 and 45 per cent in 1974.

The tide may be turning, however. Smoking was most prevalent among adults aged 20 to 24. For women in that group, the proportion of smokers rose from 36 per cent in 1992 to 38 per cent in 1994, the only segment of the population to do so.

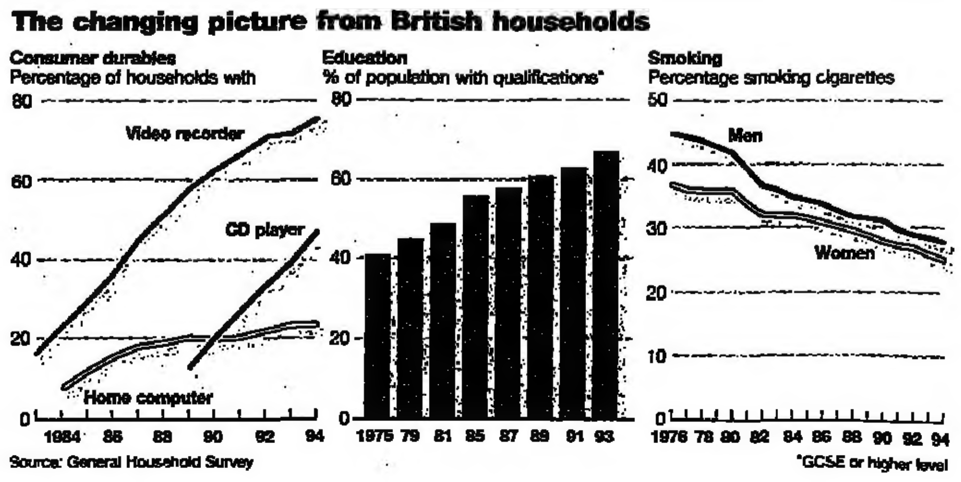
The overall proportion of people drinking more than the old recommended weekly limit of 21 units for men and 14 units for women has risen sharply. Among women the proportion has risen by 5 per cent since 1984 for 18- to 24-year-olds and by 4 per cent for other age groups. Among men aged 45 to 65 it rose to 27 per cent from 21 per cent, while for men over 65 it increased to 17 per cent from 12 per cent.

Household ownership of consumer durables has increased rapidly in the past decade. CD players and microwave ovens, now in 47 per cent and 67 per cent of households respectively, rose the most rapidly. Homes with a personal computer has increased to 24 per cent from 20 per cent in 1990.

The average size of households in 1994 was unchanged from the 1993 level of 2.44 people, down from 2.91 in 1971.

People are also much better educated. In 1994 the proportion aged 16 to 69 with any educational qualifications rose to 68 per cent, from 41 per cent in 1975.

The changing picture from British households



Source: General Household Survey

*GCSE or higher level

UK NEWS DIGEST

Daewoo boosts N Ireland stake

Daewoo Electronics, the South Korean industrial conglomerate, confirmed plans to invest a further £14.8m ($22.6m) in an expansion of its Northern Ireland video recorder plant. The project, which will be supported by a grant of £5.2m provided by the Northern Ireland Industrial Development Board, will create 330 jobs. Mr K.H. Nam, vice-president of Daewoo Electronics, said the investment would establish the plant as a stand-alone VCR manufacturing operation. It was an important part of the company's strategy to treble its VCR market in Europe and increase sales in the Russian republics.

Mr Nam said the project would allow greater control over production and component supply, which is particularly important because of the increasing demands of just-in-time inventory management. Baroness Denton, economics minister for Northern Ireland in the British government, said yesterday during a visit to South Korea that the expansion would allow Daewoo to reduce its dependence on components sourced from Korea, such as metal pressings, injection mouldings and die-castings.

As a result of the investment, Daewoo, which opened in Northern Ireland in 1989, plans to increase production by 30 per cent. It is also to step up manufacture of deck mechanisms, a sub-assembly for the VCRs which the company started making in Ireland in 1994. *John Murray Brown, Dublin*

Expansion at VarityPerkins

Diesel engine maker VarityPerkins is to produce 50,000 new low-polluting diesels a year for the industrial, agricultural, construction and materials-handling sectors. These are "years ahead" of emissions legislation worldwide relating to off-highway use, it claims. Mr Mike Baunton, group chief executive of Varity's UK-headquartered diesel operations, said the company intended the Perkins 700 range to capture at least a quarter of the world market sectors in which it will compete. He was speaking at the engines' international launch in Munich yesterday.

The principal applications of the engines will be in fork-lift trucks, compressors and compact agricultural tractors and construction equipment. They will be produced entirely at VarityPerkins' main manufacturing facilities at Peterborough in the English Midlands. The company, which employs 4,500 people in the UK, is part of Varity Corporation of the US.

John Griffiths, Industry Staff

Baccalaureate is proposed

Sir Ron Dearing, the government's chief curriculum adviser, unveiled a move towards a "baccalaureate" and a relaunch of the Youth Training scheme in the most radical overhaul for sixth-form studies since the second world war. Mrs Gillian Shephard, education and employment secretary, accepted the report in full. But Sir Ron has ignored calls from several organisations to abolish A-level exams, which have been used for several generations as a yardstick for school pupils seeking to enter universities. The measure received a broad welcome from industrialists, teachers' unions and universities, although there were several disagreements over technical details. A-levels have been criticised for encouraging students to take too narrow a curriculum, and to drop important subjects too early. It also claimed that they are so highly regarded that they harm the development of alternative vocational qualifications. *John Authers, Public Policy Staff*

Editorial Comment, Page 13

US channel may link with BBC

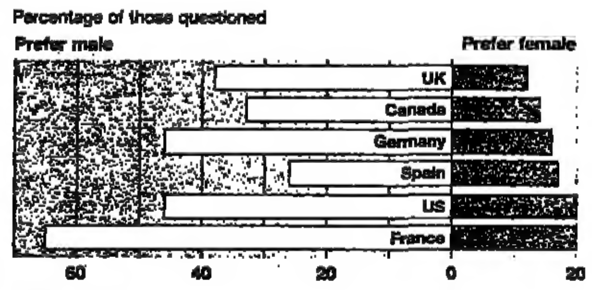
The BBC is talking to The Weather Channel, one of two 24-hour television weather channels launching in the UK in the next few months, about the possibility of a joint venture. The BBC has been looking at the possibility of launching its own weather channel for some time, but is now looking at the potential opportunities of co-operating with The Weather Channel, owned by Landmark Communications of the US. In the US The Weather Channel is available in more than 61m cable homes and its revenues this year are expected to exceed $100m. Britain's first round-the-clock weather channel – The Weather Network owned by Pelmorex, the Canadian-based media group – will be launched in the spring with The Weather Channel following in June.

Raymond Snoddy, Consumer Industries Staff

Women 'still lack job equality'

More than two-thirds of the British population believe that women still lack equal job opportunities, but many more people would prefer a male boss if given the choice, a new poll shows. The survey, part of an international study of gender stereotypes carried out by the Gallup opinion research organisation, found that although 93 per cent of people felt women should have equal opportunities, 67 per cent believed they did not have them yet. It also revealed that, if given the choice, 38 per cent of people in Britain would prefer a male boss, compared with only 12 per cent who would choose a female one. The British were far more willing to contemplate a woman giving orders than the French – among whom 65 per cent preferred a male boss. *Mark Suzman, London*

Choosing a boss



Source: Gallup

Mail rates to rise in July

Prices of sending mail from Britain to other countries will rise in July when the cost of a stamp for domestic letters rises by 1 penny from the present rates of 19p second-class and 25p first-class. The international increases will be the first for a year and the domestic ones the first since late 1993. The overall impact of the proposals, yet to be ratified by the Post Office Users' National Council, will be to raise prices by 4.6 per cent. The Post Office said the decision to impose the increases was made with the "greatest reluctance". It had been taken following last year's decision by the government to raise its contribution to the Treasury to £925m over the next three years – a figure close to its total contribution in the previous decade. *Michael Cassell, Business Correspondent*

TECHNOLOGY

Worth Watching · Vanessa Houlder

Slimline lithium battery

Yuasa, the Japanese battery manufacturer, has announced plans to begin commercial production in May of the thinnest lithium battery yet produced – an order of magnitude thinner than standard lithium button cells.

The 0.2mm thick, 3-volt cell uses a solid polymer electrolyte (the material that carries electric current between electrodes) rather than the liquid used in traditional batteries.

The Yuasa battery works at normal temperatures, which overcomes a past problem with polymer electrolytes, namely the need for high working temperatures. It is also free from leakage, making it safer than traditional lithium batteries.

Battery developers are searching intensely for smaller, lighter batteries, since the bulk and short life of batteries is a constraint on the development of miniature, portable products.

Yuasa Battery Sales (UK): UK, tel (0)1793 612733; fax (0)1793 615862.

Cable current with less voltage

The longest high-voltage cable ever made of superconductive material has been assembled by an industry and government partnership including Pirelli and the Electric Power Research Institute in South Carolina.

The 50m cable can carry more than twice the current that passes through conventional electrical cable using the same amount of voltage. The cable consists of a flexible core wrapped with several layers of high temperature superconductor tape, with pressurised liquid nitrogen flowing through the core to cool the superconducting tapes.

Pirelli said the cable signalled "the beginning of the industrial phase of superconducting cable".

Pirelli: US, tel 1803 9514992; fax 1803 9514991.

Stroke sufferers back on their feet

Stroke sufferers often find walking difficult, since the brain can no longer generate the signals required to stimulate the muscles and nerves in their limbs.

Researchers at Salisbury District Hospital and the University of Surrey are experimenting with electrical stimulators that can help people move their ankles, knees and feet.

The researchers, funded by Action Research, are trying to stimulate different muscles using computerised controls and pressure switches built into patients' shoes.

Action Research: UK, tel (0)1403 210406; fax (0)1403 210541.

Composite mix opportunities

Materials researchers are creating new composites by mixing organic and inorganic materials on the scale of a nanometre (a billionth of a metre), according to a report in today's Nature.

Scientists at the University of Illinois used cadmium sulphide and cadmium selenide to grow a semiconductor lattice that incorporated organic molecules. This close association of organic and inorganic components creates unusual electrical and chemical properties.

The researchers believe that manipulation of the electronic properties of this material could open up uses for photosynthetic and photocatalytic applications, with potential for the conversion of solar energy.

University of Illinois: US, tel 1217 333 1441; fax 1217 333 2736.

Open and shut case for solar blind

An automatic window blind that opens and shuts in response to light has been launched by Eclipse Blind Systems of Renfrew in Scotland.

It automatically opens and shuts at dawn and dusk, and closes to protect furniture from damage if the sun is particularly strong. The cost of the product ranges from £210 to £298 for a blind for a typical patio door.

Eclipse Blind Systems: UK, tel (0)141 812 3322; fax (0)141 812 5253.

Users of computer monitors are demanding increasingly sophisticated features

Screens in the picture

Computer technology, it is said, develops so quickly that your new PC has already been superseded by the time you have unpacked it.

Microprocessor power, hard disk size and CD-Rom drive performance often appear to change at break-neck speed, but one piece of computer technology has evolved much more slowly: the desktop PC monitor.

Early computer monitors simply displayed text on a green screen, and while today's versions offer colour and high-resolution graphics, some observers believe that developments such as video conferencing and multimedia (a mix of sound, pictures, text and video) call for a new generation of computer monitors with better sound and picture quality.

"These days, a growing number of people are spending more time in front of their monitor. They are realising that while you can hide the PC and software, you may have to spend eight or more hours staring at a screen," says John McGrath, general manager of NEC's UK business equipment division. "The demands made on PCs are changing – for instance, many home PCs can now display films from a CD-Rom, live broadcasts from a television tuner, and fast-moving graphics from computer games."

Next month, NEC is launching the first of a new type of computer monitor which is claimed to offer better picture quality than existing versions. It is based on a new picture tube technology, developed by Japanese company Cromaclear.

A picture or cathode ray tube works by firing a beam of electrons at a phosphor-coated screen. When the electrons hit the phosphors, they glow. The electron beam has to be tightly focused for the optimum picture quality.

Conventional picture tubes arrange the phosphors as a cluster of dots or a series of stripes, but Cromaclear phosphors are elliptical. The phosphors are also grouped into bundles of three in a vertical alignment. NEC claims this improves resolution and focus.

McGrath says improvements in production processes mean that a Cromaclear monitor will be roughly the same price as a comparable conventional monitor.

A number of companies, including Canon, Sony, Sharp, Matsushita and Fujitsu, are developing flat screen monitors which do not use picture tubes. But McGrath says that picture tube technology is here to stay, at least for the foreseeable future: "Flat screen systems like LCDs [liquid crystal displays] are expensive and have inferior picture quality when compared with a picture tube. Flat screen prices will come down and their quality will increase, but it will take another two to three years at the very least," he says. "An LCD screen may be cost-effective where space is at a premium, for example, in a London dealing room, but for most PC users, the picture tube is still the best option."

Cromaclear monitors will also offer built-in speakers and a microphone: "This is to future-proof the monitor," says McGrath. "We believe that voice command computing [which uses speech to operate a PC rather than a keyboard or mouse] will become increasingly important over the next few years. You are also seeing a convergence of telephony and PC technologies, with people making calls on their computer."

Dolby Laboratories of San Francisco has developed a surround-sound system for PCs. The system, known as Dolby Surround Multimedia, makes it possible to hear surround-sound effects while using a PC.

"An increasing number of PC programs and games are being encoded with surround sound," says Dale McGregor-Learie, Dolby's licensing operation manager. "And because a PC user sits close to the screen, it is possible to create surround sound effects with a single pair of speaker units." Companies offering surround sound software include Ocean, Electronic Arts, Europress and Psygnosis.

Dolby says its PC surround system uses simpler circuitry than that required for a television or stereo system. It is in discussion with a number of PC manufacturers, which may soon be offering monitors with built-in surround sound speakers.

George Cole

Pixel-packed resolution

Imagine a computer monitor display with a resolution as sharp as a laser printed document. Now US-based dpiX, which is pioneering the manufacture of ultra-high resolution computer displays, has turned imagination into reality.

The company was recently spun out of Xerox's innovative Palo Alto Research Center (Parc). Parc's researchers, in collaboration with partners AT&T and Standish Industries, have developed a way to pack almost 7m pixels, or picture elements, on to a 13.5in display. This is more than 20 times the number of pixels used in most laptop computer displays.

"We can make displays that have 300 pixels per inch, similar to a standard laser-printed page with 300 dots per inch," says Malcolm Thompson, a former Sheffield University professor and now chief executive of dpiX.

"In fact, the resolution is much better than a 600 dots per inch laser-printed page because paper smudges and absorbs some of the toner while our display pixels are accurate to within a micron."

Such high-resolution displays could be a godsend to hundreds of millions of people who spend many hours each day squinting at their relatively low-resolution computer displays. Thompson says a dpiX display might help relieve eye strain problems suffered by many computer users because of its higher resolution and the fact that it is flicker-free.

The dpiX display is an active matrix flat panel liquid crystal display (LCD) technology, similar to the lightweight displays widely used in portable computers. But Xerox Parc researchers discovered a way of packing more pixels per square inch and also simplifying the manufacturing process.

The displays will not be available on home computers for several years. DpiX is concentrating on very profitable custom markets such as in military systems displays and medical imaging markets. Depending on the application, a dpiX display could be sell for between $10,000 (£6,600) and $50,000.

The US military is the first customer for the displays, which is hardly surprising as the technology was partly funded with $55m in research grants from the Pentagon. The military has been keen to reduce its dependence on foreign, mostly Japanese-made, flat panel displays. Japanese LCD manufacturers dominate the world market with a 90 per cent share.

Thompson sees promising markets in medical imaging. "There are more than 200m X-rays taken in the US every year. Using our displays, it is possible to do away with the need for X-ray film and to capture almost instantly high-resolution X-ray images and transmit them to medical specialists anywhere in the world."

The displays could also be used in high-speed copying machines. The same technology used for displaying images can be adapted to capture and print images such as in photocopying machines where an entire page can be scanned and printed in an instant, compared with the slower, incremental copying and printing of regular photocopying machines.

This would allow development of high-speed photocopiers and instant book publishing systems, where entire books would be stored in a digital form and printed and bound within minutes.

Thompson promises that dpiX displays will come down in price eventually to more affordable levels, but it will be many years before they will be cheap enough for most computer users. The first users will be in high-end desktop publishing and computer-aided design applications where there is constant demand for more accurate computer displays.

DpiX will consider licensing its display technology to other LCD manufacturers which may be willing to invest the billions of dollars necessary for a high-volume production line, which would make the displays more affordable.

Tom Foremski

AGENDA OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF "TELEFÓNICA DE ESPAÑA, S.A."

(To be held on March 29th, 1996)

The Board of Directors of "Telefónica de España S.A" (the "Company"), at the meeting held in Madrid on February 28th, 1996, has resolved, in accordance with the legislation in force, to CALL the Annual General Shareholders Meeting of the Company, to be held in Madrid (in the "Palacio Municipal de Congresos", Avenida Capital de España, Campo de las Naciones, s/n) on March 29th, 1996 at 12 noon, on first call, or on March 30th 1996 at the same time on second call, with the following AGENDA:

AGENDA

I. Consideration and approval, if warranted, of the annual financial statements (balance sheet, income statement and annual report) and the Management Report on "Telefónica de España, S.A." and on its consolidated corporate group, and of the proposed application of earnings of "Telefónica de España S.A.", all for the fiscal year ended on December 31st 1995.

II. Approval, if warranted, of the Board of Directors performance in 1995.

III. Confirmation and re-election of directors.

IV. Continuation of the consolidated tax system for the group corporations.

V. Appointment of an auditor to audit the annual financial statements and management report of "Telefónica de España", and its consolidated corporate group.

VI. Delegation of powers to the Board of Directors in connection with trading the securities issued by the Company.

VII. Delegation of powers to formalise, record and execute the resolutions adopted by the Stockholders, and to formalise the mandatory deposit of the annual financial statements.

VIII. Reading and approval, as applicable, of the minutes of the General Meeting.

RIGHT TO INFORMATION

In accordance with law, the copies of the documents (Annual Accounts and Management Report, both individual and consolidated, as well as the Auditor's Report) to be submitted for approval at the Annual Shareholders' Meeting will be placed at the shareholders' disposal.

MEETING AT THE FIRST CALL

As the quorum necessary to approve the Agenda is expected to be reached at first call, unless otherwise publicly announced, the Meeting will take place at first call, at the time, place and date mentioned above.

Madrid, March 8th, 1996.

THE SECRETARY OF THE BOARD OF DIRECTORS
HELIODORO ALCARAZ Y GARCIA DE LA BARRERA

Telefónica

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Cinema/**Nigel Andrews**

A minefield on Death Row

Dead Man Walking, Tim Robbins' powerful film about capital punishment, takes its title from the phrase muttered by fellow convicts when they watch a man marched to his execution. It is spoken here – a sardonic, no-reprieve mantra – when Sean Penn's murderer-rapist goes to his death by lethal injection. He is watched with equal horror by us the audience and by the on-screen characters immured behind the death chamber's viewing window.

We are already deep inside the mind of one of these. Oscar-winner Susan Sarandon's superbly played Sister Helen Prejean, a Louisiana nun whose book about her work as a spiritual adviser on Death Row inspired the film, becomes our emotional stalking horse.

Through her we learn the details of the crime: a boy and girl senselessly assaulted and butchered in a wood. And through her we step through the minefield of family emotions, from the victims' stricken parents who close their hearts in sudden, cold distaste when they realise she is counselling the killer, to the condemned man's family who, in one brilliantly unnerving scene, "kill" time with him in their last, agonising meeting.

Robbins' film is far better than most in this hapless subgenre. "Dead movie walking" sums up the usual impact of these dramas, either stiff with piety or sickly with veiled prurience. Here the secret is continual disorientation. Nothing seems as it should, from Sarandon's Civvy Street appearance – she has kicked her habit for quotidian casuals, though her face retains an ascetic, no-make-up luminosity – to the switchbacking self-revelations of Penn's character.

Here hints of remorse vie with nasty streaks of white supremacism. His simpleton's openness – "Holy man, did good, in Heaven," he replies when Sarandon asks if he has read about Jesus in the Bible – may be real or tactical. And though his flashback-revealed guilt is seldom in doubt, his contrition remains tantalisingly in the balance. Despite the handicap of a bouffant wig aimed at striking 20 years off an actor last seen as a balding Mafia lawyer (*Carlito's Way*), Penn maps the character so skilfully that all options remain open to the end.

DEAD MAN WALKING
Tim Robbins

CUTTHROAT ISLAND
Renny Harlin

SGT BILKO
Jonathan Lynn

BALTO
Simon Wells

LAWNMOWER MAN 2
Farhad Mann

Or almost. For the movie falters in its final stride. We realise there is still an acting gulf between the formidable Sarandon – every pore quivering with intelligent receptivity, every whiplash resentment from the victims' families stinging her into mute dismay – and a Penn who babbles bravely but dry-eyed through his big "crying" scene.

As often with films that cannot cover the full last mile to emotional truth, Robbins resorts to the short cut of rhetoric. In the death chamber the power of queasily observed details – the changing fluid levels in the remote-control hypodermics, the pedantically demarcated jobs of the guards – is vulgarised by heavenly choirs on the soundtrack and crucifixion poses on the execution bed.

Before this point, though, *Dead Man Walking* is a moving, deeply skilful film. As he showed in his political satire *Bob Roberts* and his own acting performances (*The Player*, *The Shawshank Redemption*), Robbins knows how to characterise without caricaturing. Even the seediest characters here, like Scott Wilson's prison governor, have their humanity and their "reasons". And even the most pious characters, like Sarandon's angel of mercy, show that fears, feelings and fallibilities all beat beneath the crucifix around the neck.

Complimentary rum was on offer at the press show of Renny Harlin's $90m pirate romp *Cutthroat Island*, which has gone down with most hands at the US box office. No doubt the alcohol was intended to help us through an experience that is roughly the equivalent of the other two components in Winston Churchill's famous definition of the great seagoing traditions: "Rum, sodomy and the lash."

First we are ravished by excess exuberance, as a cutlass-weaving cast led by laddish Matthew Modine and mannish Geena Davis pin us to our hammocks while doing unspeakable things in the name of entertainment. There are noisy stunts, noisier explosions and dialogue lost in the ear-crackling spaces between.

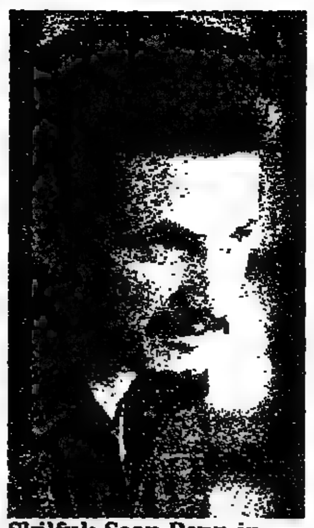
Later we feel lashed by a plot that lays on us the same leitmotifs over and over again. The torn bits of a treasure map that must be found and pieced together; the funny monkey that capers in Davis' chamber; the people walking planks or falling off topmasts; and Frank Langella purring villainy as a mad uncle trying to beat Davis to the gold-harbouring island.

'Rum, sodomy and the lash': Geena Davis in the pirate romp 'Cutthroat Island'

Renny Harlin can direct action, as we know from *Die Hard 2* and *Cliffhanger*. What he seems unable to direct is direction. The film ploughs on from moment to moment, effect to effect, while never drawing a compelling narrative line or giving us the navigational comfort of a cast of characters we can engage with or care about.

*

In *Sgt Bilko* Steve Martin replaces Phil Silvers, which is fine by me. As a child I was a registered non-fan of the 1950s television comedy series, sitting in a state of live rigor mortis before the weekly antics of the scurrilous army base wheeler-dealer, which seemed to be required viewing for everyone else. Bilko, you recall, made life heaven for his men with gambling, drink and women, and hell for his C.O. who kept almost showing the visiting brass into the squad's hut of iniquity.



Skilful: Sean Penn in 'Dead Man Walking'

The movie remake is choppily scripted by Andy Breckman and more choppily directed by Britain's Jonathan Lynn, of *Nuns On The Run* and TV's *Yes Minister*. But Steve Martin still shows himself the Nijinsky of broad comedy. He brings a gleeful grace both to Bilko's chicanery – "All I ever wanted was an honest week's pay for an honest day's work" – and to the over-strenuous knockabout of a plot involving everything from runaway tanks to vertical-lift-off horses.

Vertical nosedives are the experiences offered by both *Balto* and *Lawnmower Man 2*. The first is an animated feature from the Spielberg company. We accompany an Alaskan huskie through snow, winds and gale-force violins as he saves a town full of disease-struck children by travelling 600 miles to retrieve a lost sled-ful of medical supplies. "Mush!" cry the humans on screen, in uncanny echo of the humans in the audience.

Lawnmower Man 2 is subtitled "Beyond Cyberspace" and may be beyond more than that. It was certainly beyond me. What is this mystery super-chip that everyone is chasing? Why is virtual reality boffin Patrick Bergin wearing ratty dreadlocks and an expression of growing incomprehension? Why, finally, does the whole effects-strewn film seem irredeemably tatty, tedious and confusing?

Dance

A dream fulfilled

Music that has little to say that is not trite and arid; competent and agreeable stuff. It was with such comments that London music critics of 1946 – who were then largely charged with reviewing ballet – dismissed Prokofiev's score for *Cinderella* when Frederick Ashton's version was seen at Covent Garden. We know better now. It is a superb score: for my money the best of all Prokofiev's music for dancing.

It is Prokofiev at his most warm-hearted, expressing "the poetic love of Cinderella and the Prince", taking an unabashed and grateful look back at Tchaikovsky. It is music filled with ingenuities – how skilled the increase in tension as midnight approaches and the waltzing becomes more fevered. (Those 1946 commentators were deaf: Constant Lambert's conducting showed every felicity of the music, as did Ashton's.)

To realise this score, a choreographer has to be, above all, musical. The Soviet versions I have seen – Konstantin Sergueyev for the Kirov; Zakharov for the Bolshoi – suffered from the predictabilities of the Soviet creative manner. Most other stagings have been lumpen in dance imagination. Like Ashton, whose classicism matched Prokofiev's, Michael Corder loves and understands every note. (But he loves and understands too many notes, since he has opted in his version for English National Ballet to use the score uncut.)

As I reported a couple of weeks ago when the staging was on its regional try-out, Corder's classical taste, his assurance in creating fluent, elegant choreography, make this an admirable work. Given a first London showing this week, it looks very stylish, and is danced excellently well.

The Season fairies and the stars in Act 1, the entire ballroom sequence (waltz crowding on waltz), the lovely apotheosis: these show a choreographer working with the score as with an ideal partner. Each phrase of movement sits neatly on the music; the drama (and Corder avoids that knockabout comedy which is the ruination of other local versions) is Prokofiev's drama of "the dream fulfilled".

As I wrote after a first viewing, I think the score would benefit from Ashton's cuts, and significantly from the excision of the Prince's journey. It is indifferent music, and ENB cannot provide the forces to make it work. In everything else, the performance was excellent. Cinderella's role is taxing, and Lisa Pavane sailed sweetly and with unerring physical charm over every hurdle. Her prince was Greg Horsman, equally at ease with ferocious demands.

The company dealt serenely with every step: I salute the duets for the four Seasons, admirably crafted, admirably danced, and Dmitri Gruzdyev and Roman Rykin as the prince's chums, showing us big, clear, vivid male dancing. The score sounded very well under Francis Coleman's baton. The staging is a welcome success for ENB, not least by showing Michael Corder as a true classical creator.

Clement Crisp

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Theatre/**Alastair Macaulay**

Fortune-cookie 'Passion'

Stephen Sondheim, much the most sophisticated writer of musicals today, has become also the most limited and mannered. His limitations and mannerisms are most evident not in his subject matter (though people have always rattled on too much about its darling) or in his lyrics (though these are certainly in steep decline), but in his music – as in *Passion*, the 1994 musical which had its European premiere this week at the Queen's Theatre.

Sondheim has always loved to take short phrases of lyrics and accent them musically with equal stress on every syllable until the last: Send-in-the-*clowns*; Loo-king-for-the-*dot*; The-mor-ning-*ends*; Have-a-little-*priest*... And he sets these phrases in tight little clusters, like granny knots. Figures a 19th-century composer would have embroidered as ornaments into the middle of a phrase become, in Sondheim's hands, the entire phrase.

Sometimes this habit becomes expressive of a nagging thought, but in *Passion* it is almost the only way he can express himself. "Pom-pous-lit-tle-*man*." "To-get-a-way-from-*life*." "Per-haps-it-was-the-*dress*." "Just-a-bit-a-*loof*." "What-I-took-for-*love*." "How-long-were-we-a-*part*?"

The short notes are always set within a diapason of a minor third. Even when Sondheim puts a long stress in mid-phrase ("Count Lu-do-vic-of-*Aust*-ri-*a*"), the music has the same clenched, picking-at-a-scab feeling.

In the past, especially more than 20 years ago – witness *Company* – Sondheim flaunted his witty cynical urbanity and only occasionally let winsome self-pitying sentimentality creep in. Then he grew fonder of his sob-sister, self-pitying streak and started to wear his wizened heart on his clever sleeve. He also began to display a depressing penchant for pop psychology.

Now, in *Passion*, Sondheim is a wiseguy no more. He seems to aspire to the mental climate of Andrew Lloyd Webber.

His cynicism is virtually nowhere in sight – and I almost miss it. All that is left is a loudly bleeding heart, and some insights into human nature and love that would not disgrace a fortune cookie. ("Beauty is power, longing a disease." "Loving you is not a choice, it's what I am.")

Passion, ironically, is just what he cannot convincingly express. In the last number, he tries to depict it in ascending lines, but they are short and tight, and he at once recycles them, turning them into mannered expressions of emotional constraint.

The story is pop Romanticism: *Beauty and the Beast* with the genders reversed. Maria Friedman as the sickly, unlovely and emotionally intense Fosca (the only role of any dramatic interest) is made up like Bette Davis in the first half of *Now Voyager* (frumpy, thick eyebrows; maiden-aunt look) and gets to emote as if she were in the second half of the same role.

It is hard to believe that, as Giorgio, Michael Ball – with his pudgy-pretty dimpled face – would be lending her the novels of Rousseau, or that she, with her violence of feeling, would fall for this sweet baritonal puppy.

Still, since his previous mistress Clara (Helen Hobson) is fitted out like a porcelain doll, we accept that he comes to find Fosca a more free and appealing spirit – though just in the nick of time, for then death claims her.

Jeremy Sams directs. I admire the seamless connection of speech and dialogue he achieves, but this hammy show never rings true, in spite of the best efforts of Friedman, Ball and others.

Paul Farnsworth, designing, has set it in a kind of rose-tinted conservatory which only makes the atmosphere more stale.

Continues at the Queen's Theatre, W1 (0171-494 5040).

Theatre/**David Murray**

Brothers in crisis

Presented by Soho Theatre at the Arts Theatre, Jimmy Murphy's first play comes richly garlanded by the Irish press. The London press-handout for *Brothers of the Brush* touted it as "brutally hilarious", however, which is not quite right. Its cheerful Dublin banter draws the odd laugh, but it is all on the surface. From early on, anybody can see that this is going to be a remarkably tough little play, and the ending comes like a kick in the stomach.

Not "brutal", though; just the happenchance outcome of a situation that might have gone differently, but probably no better. For the situation here is hopeless: it is that of a permanent under-class who survive by drawing the dole while relying on short-term, illicit and therefore ill-paid work to get them by, and so are vulnerable to all risks. Murphy has observed it and encapsulated it – plainly and honestly, without moralising – on a compact, intensive scale.

The "brush" of the title is a paintbrush, and the "brothers" is ironical. We watch three painters – 30-ish Lar and Heno, who have young families, and old Jack – and their shifty employer Martin through a crisis weekend, during which they discover that "every man for himself" seems to be a natural law.

Martin needs the flat they are painting to be done by Sunday night, and they are counting desperately upon him to rehire them for a bigger factory job from Monday. But stroppy Heno wants a sudden "strike", which the union may or may not recognise, to squeeze Martin for better pay; Lar's and Jack's irresolute responses and eventual decisions, and Martin's defensive tactics, are the exemplary burden of the play.

Like Mamet's *Glengarry Glen Ross* Murphy's *Brothers* combines a general, assessive view with an intricate story of fencing and betraying.

All of that is prompted by bleak economic facts, which determine each individual's reactions. Only the outcome – which turns upon a tell-tale cheque, kept because it bounced – is mere accident. Though Jack, tired and ageing fast, yearns after the old days when the union took care of everybody, the union is impotent now that short-term labour is the order of the day. Heno demands "respect", though we never see him do a lick of work. Lar just needs a job, *any* job.

He has already learnt painfully that the union can no longer help grey-area labourers like him, so he must strive to be known as a tame, tireless Stakhanovite by grey-area bosses. This brings him to poignant ruin, in Stuart Graham's transparently honest performance.

There are passages where the characters seem to stop listening to each other, and repeat themselves tiresomely. The director Lynne Parker might have done more with those, by way of illuminating new corners of the personalities and their motives. Otherwise the trajectory of the play is clean and stark, even with its local surprises.

INTERNATIONAL
ARTS
GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Asko Ensemble: with conductor Oliver Knussen and narrator Marianne Pousseur perform works by Debussy, Takemitsu, Kondo and Feldman; 3pm; Mar 30
● Matthäus Passion: by J.S. Bach. Performed by the Orchestra of the Eighteenth Century and the Nederlands Kamerkoor with conductor Frans Brüggen. Soloists include Kristinn Sigmundsson and Nico van der Meel; 7.30pm; Mar 31

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Deutsches Symphonie-Orchester Berlin: with conductor Vladimir Ashkenazy and cellist Lynn Harrell perform works by Dutilleux and Ravel; 8pm; Mar 29, 30
DANCE
Deutsche Oper Berlin
Tel: 49-30-3438401
● Hommage à Marius Petipa: the Balletensemble der Deutschen Oper Berlin perform highlights of the ballets Raymonda, Swan Lake, Don Quixote, The Sleeping Beauty and Paquita; 7.30pm; Apr 2
OPERA
Staatsoper unter den Linden
Tel: 49-30-2082861
● Die Walküre: by Wagner. Conducted by Daniel Barenboim and performed by the Staatsoper unter den Linden and the Staatskapelle Berlin. Soloists include Deborah Polaski, Waltraud Meier, Uta Priew, Poul Elming, John Tomlinson and René Pape; 4pm; Apr 1

■ BONN

DANCE
Oper der Stadt Bonn
Tel: 49-228-7281
● Don Quixote: a choreography by Valery Panov to music by Minkus, performed by the Ballet der Oper der Bundesstadt Bonn and the Orchester der Beethovenhalle. Soloists include Didier Gettliffe, Danilo Mazzotta, Irina Zavialova and Vadim Bondar; 8pm; Mar 29
OPERA
Oper der Stadt Bonn
Tel: 49-228-7281
● Manon Lescaut : by Puccini. Conducted by Eugene Kohn and performed by the Oper Bonn. Soloists include Karen Notare and Fabio Armiliato; 7pm; Mar 30

■ CHICAGO

OPERA
Civic Opera House & Civic Theatre
Tel: 1-312-332-2244
● Götterdämmerung: by Wagner. Conducted by Zubin Mehta and performed by the Lyric Opera of Chicago. Soloists include Eva Marton, Siegfried Jerusalem, Matti Salminen and Alan Held; 5.30pm; Mar 30

■ HOUSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-713-639-7300
● Landmarks in Print Collecting: Connoisseurs and Donors at the British Museum since 1753: the first exhibition of prints from the British Museum to travel outside the United Kingdom. The exhibition traces the history of the collection, exploring why people collect and how the function and value of prints change over time; from Mar 31 to Jun 16

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Viktor Lukas: the organist performs works by J.S. Bach, Beethoven, Mendelssohn, R. Schumann, and Berlinski; 5pm; Mar 30

■ LIVERPOOL

EXHIBITION
Tate Gallery Liverpool
Tel: 151-7093223
● Wandering About in the Future. New Tate Acquisitions: this collection display takes its title from one of the exhibited works: Cathy de Monchaux's "Wandering About in the Future, Looking Forward in the Past". It is a display of modern art recently acquired, including sculptures, paintings, photography and video; from Mar 30 to Aug 31, 1997

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● The Royal Philharmonic Orchestra: with conductor Valery Gergiev and pianist Alexander Toradze perform Shostakovich's Symphony No.1, Prokofiev's Piano Concerto No.5 and Stravinsky's Le Sacre du Printemps; 7.30pm; Mar 29
Purcell Room Tel: 44-171-9604242
● Dufay Collective: and tenor John Potter in a programme exploring the variety of popular music-making in England during the 17th century; 7.30pm; Mar 29
Royal Festival Hall
Tel: 44-171-9604242
● Wiener Philharmoniker: with conductor Pierre Boulez perform Haydn's Symphony No.104 and Mahler's Symphony No.5; 7.30pm; Mar 31
OPERA
Royal Opera House - Covent Garden Tel: 44-171-2129234
● La Traviata: by Verdi. Conducted by Carlo Rizzi and performed by The Royal Opera. Soloists include Andrea Rost, Ramon Vargas, Helen Lothian and Gillian Knight; 7pm; Mar 29

■ MADRID

CONCERT
Auditorio Nacional de Música
Tel: 34-1-3370100
● Matthäus Passion: by J.S. Bach. Performed by the Orquesta y Coro Nacionales de España, conducted by Hans Martin Schneidt. Soloists include soprano Helen Donath, mezzo-soprano Ursula Kryger, tenors Adalbert Kraus and Kurt Azesberger, and bass Wolf-Matthias Friedrich; 7.30pm; Mar 29; 30, 31

■ NEW YORK

CONCERT
Carnegie Hall Tel: 1-212-247-7800
● Angeles String Quartet: perform works by Haydn, Harbison, Webern and R. Schumann; 8pm; Mar 29
OPERA
Metropolitan Opera House
Tel: 1-212-362-6000
● La Forza del Destino: by Verdi. Conducted by James Levine and performed by the Metropolitan Opera. Soloists include Deborah Voigt, Victoria Livengood and Sergej Larin; 8pm; Mar 29

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre Colonne: with conductor Antonello Allemandi and pianist Bernard Ringeissen perform works by Probst, Beethoven and Brahms; 8.30pm; Apr 1
DANCE
Théâtre de la Ville
Tel: 33-1 42 74 22 77
● Toccata: a choreography by Anne Theresa de Keersmaeker to music by J.S. Bach, performed by Rosas; 8.30pm; Mar 29, 30

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Lohengrin: by Wagner. Concert performance by the Orchestra dell'Accademia di Santa Cecilia with conductor Christian Thielemann. Soloists include soprano Eva Johannson, mezzo-soprano Janis Martin, tenor Gosta Winbergh, baritone Sergej Leiferkus and basses Hans Tschammer and Eike Wilm Schulte; 6pm; Mar 31 (5pm) : Apr 2, 4

■ STOCKHOLM

CONCERT
Konserthuset Tel: 46-8-7860200
● Filharmonikerna: with conductor Leif Segerstam and violinist Arve Tellefsen perform works by Lidholm, Nielsen and Brahms; 3pm; Mar 30
OPERA
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Aida: by Verdi. Conducted by Maurizio Barbacini and performed by the Royal Opera Stockholm. Soloists include Peter Kadiev, Päivi Nisula, Hillevi Martinpelto and Vello Jürna; 7pm; Mar 29

■ STRASBOURG

DANCE
Théâtre Municipal de Strasbourg - Opéra du Rhin Tel: 33-88 75 48 00
● Nederlands Dans Theater 2: perform the choreographies Soltaire, Lieder eines fahrenden Gesellen and Mellantid; 8pm; Mar 29

■ WASHINGTON

JAZZ & BLUES
Concert Hall Tel: 1-202-467 4600
● Wynton Marsalis: performance by the jazz trumpeter; 8.30pm; Mar 30

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Economic Viewpoint · Samuel Brittan

Money shines amber alert

The term 'cause' is a slippery one which Milton Friedman rightly tries to avoid. Yet in an elusive way, the behaviour of the money supply still matters for inflation

Anyone who thought that the controversy over the influence of the money supply on the economy had been buried would have had a rude awakening recently. In the industrial world, monetary growth has accelerated and led to renewed argument about whether this is flashing a warning for policymakers.

International monetary growth is not at a rate which suggests a take-off into double-digit inflation, but it is getting near the rates associated with the inflationary blip at the end of the 1980s. The problem, if there is one, stems from the US and the UK, and possibly some of the smaller countries. Monetary growth in Germany, Japan, Italy and France has rebounded from below zero rates last year.

But wait before drawing any hasty conclusions about the US. For although broad money is rising quite rapidly, growth in the monetary base – which covers cash and bankers' deposits with the Federal Reserve – has slowed to the lowest rate for a decade. Even the Shadow Open Market Committee – the avowedly monetarist Fed watchdog – called for a more expansionary policy.

In the UK there is no such easy way out, since the monetary base is also rising above the "reference range". Thus the UK provides the perfect setting for the civil war between the two monetarists on the Chancellor's six-member forecasting panel. Tim Congdon of Lombard Street Research believes the government's inflation objectives are in jeopardy. Professor Patrick Minford of Liverpool university argues that policy is culpably overtight in view of the large gap between actual and potential output.

It may help to put the controversy in perspective if we stand back from it and take advantage of a new book by J. Daniel Hammond on the historical background to current arguments over the role of the money supply. The title (*Theory and Measurement: Causality Issues in Milton Friedman's Monetary Economics*, Cambridge University Press) does not suggest a laugh a minute. But it is worth persevering.

Friedman's monetary project started out as a joint attempt with Mrs Anna Schwartz in 1948 to investigate the "role of monetary and banking phenomena in producing cyclical fluctuations, intensifying or mitigating their severity, or determining their character". While Europeans worry about growth, inflation and unemployment *per se*, Americans have been much more preoccupied with the business cycle – in other words deviations from underlying trends. The most spectacular of these was the Great Depression of the 1930s, which left a permanent scar on US politics and business.

The focus later shifted to inflation under the influence of the accelerating rise in US prices in the first three post-war decades. And Friedman also became known, well outside monetarist circles, for his demolition of the idea of a long-term trade-off between inflation and unemployment.

But he was always concerned with output fluctuations in the short term, which he thought could last three to ten years. He was the author of the famous proposed rule that the money supply should grow at a constant moderate rate. The rule derived from his belief that this was the best one can do to mitigate slumps and booms, and not from any view that they do not happen or matter.

Friedman was attacked for "black box economics" or measurement without theory. This meant he searched for statistical regularities without first setting out in mathematical terms a theoretical model to test. A related charge was that he confused correlation with cause. In other words, his ideas were based on a mere association between money and prices (or money and nominal gross domestic product). The critics said there could easily have been a common cause at work or that the money simply responded passively to economic movements, accommodating whatever change had occurred.

In fact, Friedman gave several descriptive accounts of the transmission between money, GDP and prices. A symposium in the autumn 1995 issue of the US journal Economic Perspectives lists eight possible transmission mechanisms; and their relative importance will vary from one episode to another.

Friedman also went out of his way to investigate whether alternative explanations could predict events better than the behaviour of the money stock. For example, he compared the experience of countries with different institutions, examined how the Fed decided policy, and carried out simple econometric tests to see whether specific events could have been better predicted from Keynesian variables such as investment and government spending.

If Friedman did not take the mathematical high road, it was a deliberate choice. For he regarded economic analysis as an engine for investigating specific problems rather than a complete description of the universe. Nevertheless he was careful to avoid "in his scientific work" the word "cause" which he believed to be "a very tricky concept".

This is best illustrated by his treatment of the Great Depression. Friedman never attempted a complete explanation either of that depression or of business cycles in general, but concentrated on the way that monetary policy aggravated them.

One of his main assertions was that the failure of the Fed to combat the banking crisis of 1930-31 turned a severe recession into a full-blown depression. Moreover, he identified what he believed lay behind that failure – the premature death in 1928 of Benjamin Strong, dynamic chairman of the New York Fed.

It may seem odd that an economist who puts so much emphasis on market forces and is so sceptical of calls for political leadership, should attribute so much importance to one human accident. Friedman concedes this when he admits it was the frailty of the US banking system which required heroic leadership.

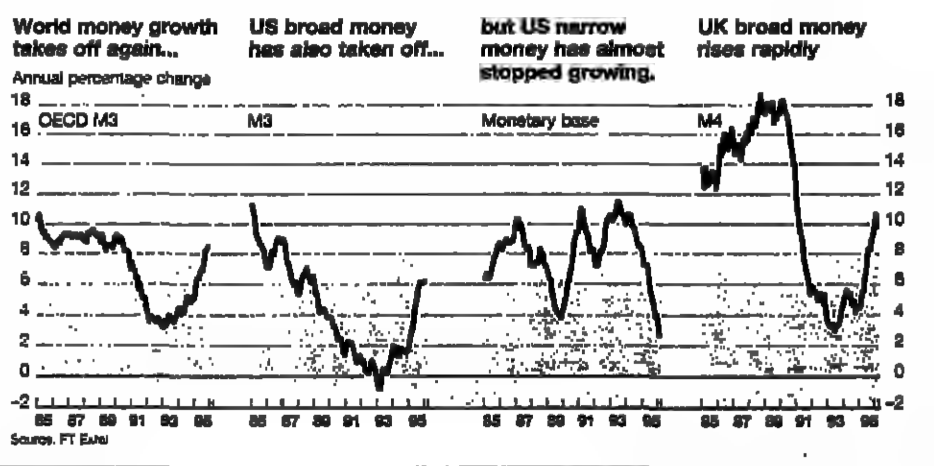
No-one claims to have a complete explanation of the Great Depression. But one is struck by the futility of asking for its "cause" (or even "causes"). The post-first world war gold standard was prone to deflationary disturbances because the gold price had not been adjusted to the generally higher price levels. The US financial system was fragile.

The Fed failed to stop a cascade of banking collapses when it could still have done so; and Strong's death made this failure more likely. But having discussed these and other possible factors, what is gained by seeking something called "the cause"? Similar problems arise about the cause of the first world war itself. Friedman is right to avoid the word.

Nothing so far said provides an instant resolution of the present battle among the British monetarists. The forthcoming report on the UK economy from the Organisation for Economic Co-operation and Development suggests that labour market reforms mean the unemployment rate at which inflation takes off has fallen below 6 per cent – or 1.5m – compared with the current rate of 7.9 per cent. Thus far, it is a round for Minford.

But history shows the folly of basing inflation policy on hypotheses about such "real" relationships, which have a habit of coming unstuck. UK monetary growth is shining at least an amber light. There is no justification for a fresh monetary squeeze when the recovery is sluggish and output below trend.

Policymakers should however be alert for the need to reverse future interest rate cuts and those already made. To navigate a consistent course we need to adjust the instruments as the weather changes and not go by meteorological forecasts alone.



·LETTERS TO THE EDITOR·

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Competitiveness must top agenda

From Mr Adair Turner.

Sir, Lionel Barber's article "New shapes in the stars" (March 26) on the intergovernmental conference which begins on Friday was very thoughtful and an excellent summation of the political conundrums that must be faced in Turin.

But one crucial element was conspicuous by its absence. It is essential that the issue of Europe's competitiveness is top of the IGC agenda.

Creating the right environment for growth, getting the European Union's 20m unemployed back to work, ensuring that Europe becomes a trading block able to compete with the US and east Asia – these are all priorities that must be addressed as a matter of urgency by the member states.

Businesses across Europe are united in this cry, as the submission to the IGC from Unice, the European employers' organisation, testifies. Any institutional reform agreed in Turin, therefore, must have Europe's competitiveness firmly in mind.

Adair Turner,
director-general,
Confederation of British Industry,
Centre Point,
103 New Oxford Street,
London, C1A 1DU,
UK

Unnecessary diversion

From Mr Tony Young.

Sir, Your editorial on the latest proposals by telecommunications regulator, Oftel, for BT prices ("Lines down", March 21) describes a reference to the Monopolies and Mergers Commission as "probable".

Such a reference would be a considerable diversion of BT effort away from its prime objective of serving the customer and the outcome of such a review would be very uncertain – not least since the timescale is such that there is likely to be a change of government in the interim.

It would be much better for customers if BT and Oftel could reach a sensible agreement, but that will involve the director general recognising that the telecommunications marketplace is one of significant risk and growing competition.

It is not suffocating regulation but effective competition that is the best long-term guarantee of reducing prices and consumer choice.

Tony Young,
joint general secretary,
Communications Workers Union,
Greystoke House,
150 Brunswick Road,
London W5 1AW, UK

Training exported for SE

From Mr Tim Nicholson.

Sir, Kerin Hope's report on the progress of the Skopje Stock Exchange to live trading ("A stock market for Macedonia", March 25) highlights a little known UK export, namely training and qualifications.

The Macedonian securities staff sat exams drawn from our new modular international capital markets qualification programme. The same material is finding favour as far afield as Shanghai, South Africa and Albania.

This practical assistance, competently delivered by a UK consultancy firm in association with a body like our own and with the backing of the Overseas Development Administration's Know How Fund, will leave an impression that could last until Skopje dealers and businessmen are ready to expand their activities into international markets.

As a result of this training the chances are good that they will start their search for business partners in London.

Tim Nicholson,
chief executive,
Securities Institute,
Centurion House,
24 Monument Street,
London EC3R 8AJ, UK

Logic is not prevailing

From Mr R.J. Southgate.

Sir, Beef which is possibly contaminated with BSE could possibly be implicated in the deaths of 10 people and the slaughter of millions of cattle is contemplated.

This seems to be a somewhat perverse action when the mass destruction of cigarette production is not considered for knowingly killing at least 400,000 Americans each year.

I guess it's not the year for reason and logic to prevail.

R.J. Southgate,
1604 Pinetree Drive,
Pittsburgh PA 15241, US

Far less paid for book

From Mr Eddie Bell.

Sir, I was interested to read in Tony Walker's article "New move to catch the falling star" (March 26) that HarperCollins paid the daughter of Chinese leader Deng Xiaoping "about $1m for the biography of her father". This is completely untrue. HarperCollins paid her $20,000.

Eddie Bell,
executive chairman and publisher,
HarperCollins,
Westerhill Road,
Bishopbriggs,
Glasgow G64 2QT

BOOK REVIEW · Rodric Braithwaite

THE GORBACHEV FACTOR: By Archie Brown
Oxford, 425pp, £19.99

The cunning reformer of a sclerotic system

These days, Mikhail Gorbachev's fellow Russians look with pity at any poor foreigner who praises what he did for them. Reactionaries regard him as a traitor for giving up Stalin's empire in eastern Europe, and for causing the collapse of the Communist party and the disintegration of the Soviet Union. Liberals accuse him of remaining an unreconstructed communist to the last. And those in the middle say he never had a viable strategy, and, in the end, lacked the courage either to take a reforming grip on the economy or to stand up to the hard men in the party, the military and the KGB.

But Russia is no longer a mystery wrapped in an enigma. We foreigners now have the material on which to make our own judgments. The intoxicating events surrounding the collapse and death of the Soviet system are as well documented as any in recent history.

Gorbachev and the other central figures have published their memoirs (Brown makes extensive use of the lively account by Anatoly Chernayev, Gorbachev's foreign affairs adviser, which is solidly based on the notes he kept at the time and has appeared in German, but not – alas – in English). Everything was recorded in the press, on the radio and on the television. We know as much about the workings of the Kremlin under Gorbachev as about the British cabinet under Margaret Thatcher. This is what *glasnost* came to mean.

Archie Brown has mastered the material and met the people: a quarter of his important book is taken up with foot-

Business books shortlist

The shortlist for the first Financial Times/Booz-Allen & Hamilton Global Business Book Awards has been announced. It includes a book by David Packard, the computer pioneer, who died on Tuesday.

The competition, aimed at recognising the world's outstanding business books, offers a total prize money "pot" of $60,000 (£40,000). Two books – one on management and one about business – have been selected from each of three regions: the UK and Europe, the Americas and Asia/Pacific. The six finalists are:

Management:
- *L'Intelligence Economique*, by Bruno Martinet and Yves-Michel Marti, published by Les Editions D'Organisation (UK and Europe);
- *Why Teams Don't Work*, by Harvey Robbins and Michael Finley, published by Pacesetter Books (the Americas) and
- *Intellectualising Capability*, by Noboru Kono and Ikujiro Nonaka, published by Nihon Keizai Shinibunsha Publishing (Asia/Pacific).

Business:
- *Die Deutsche Bank 1870-1995*, by Lothar Gall, Gerald D. Feldman, Harold James, Carl-Ludwig Holtfrerich and Hans E.Büschgen, published by C.H.Beck (UK and Europe);
- *The HP Way: How Bill Hewlett and I Built Our Company*, by David Packard, published by Harper Business (the Americas); and
- *Creating Training Miracles*, by Alastair Rylatt and Kevin Lohan, publisisbed by Prentice Hall Australia (Asia/Pacific).

The shortlisted books have been selected from more than 140 entries worldwide. The winning book from each category will be announced in an awards ceremony in London on April 12.

chev's ultimate aims went much further: they were political rather than economic.

He believed the Soviet Union could prosper only if it became a pluralistic, democratic and law-based state, dismantled the cold war and abandoned the imperial relationship with eastern Europe. He insisted on the contested elections in 1989 which were a turning point in Soviet history, perhaps in Russian history, too.

His ideas were in constant evolution: he was too intelligent and realistic not to adapt

Of course, Gorbachev made mistakes. It is a rare statesman (about as common as the Arabian Phoenix) who makes none. He was testy with the more extreme radicals and alienated many who would have done better to support him when the going got rough.

He failed to come down on one side or the other when models for economic reform were proposed to him in 1990. He notoriously underestimated the explosive emotions and the justified grievances of the non-Russian peoples in the Soviet

als who later became his most vociferous critics.

He himself was acutely aware of what had happened to Khrushchev, whose attempt to change the system was far less radical. Gorbachev feared he too might wake up one day to discover that he had been taken ill, lost his job and become a non-person. So he ducked and weaved and economised with the truth and cajoled and bullied and harangued. He compromised right up to the limit with the men who had the guns and tapped the telephones.

But, in the spring of 1991, he turned decisively away from the bloody path along which they were leading him. His fears became a reality one day in August when they announced to the world that he had fallen sick in the Crimea and was incapable of performing his duties.

The coup failed. And it failed because Gorbachev had made it possible for the ordinary people as well as the leaders – in the cities, the army and the KGB itself – to think for themselves about politics. The instruments on which the plotters relied came to pieces in their hands. By then, Gorbachev's historical task was done, and it was left to his successor to carry Russia on to the next stage.

It makes no sense to blame Gorbachev for not completing the process himself: the task was too gigantic to be achieved in the course of a single career. Even Moses never entered the Promised Land. When they elect a new president in June, the Russian people will decide whether to remain in Israel, despite the lack of milk and honey, or to return to Egypt

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Thursday March 28 1996

Japan's banks take stock

Japan's leading bankers have at last seen the writing on the wall – most of it in red ink. Over the past 10 days, 17 of the 21 top commercial and trust banks have formally written down many of the non-performing loans which they inherited from the property boom of the late 1980s.

After years of pressing the banks to take these losses on the chin, external observers will rightly welcome this unexpected outbreak of realism. The question is: what happens next?

Writing off a combined total of Y7,000bn ($70bn) in bad loans has left the 17 banks forecasting losses of Y3,300bn for the year 1995-96. Biting the bad loans bullet was a necessary first step to restoring the Japanese banking system to health. As a result of the past week's actions, several banks can claim to be putting the bubble years behind them – indeed, some may be back in the black as early as next year.

But the banks are not out of the woods yet. Most important, there is the small question of how to restore the gaping new hole in their balance sheets. The losses so far announced for the six trust banks represent more than a quarter of their end-of-September capital base. A few may find themselves in immediate violation of internationally agreed capital adequacy standards.

As for the remainder, the roughly 20 per cent rise in the stock market since last autumn has probably put them out of danger, for the time being, by raising the value of their large unrealised security gains. But it would be foolish, to say the least, for the banks to rely on this support indefinitely.

Most of the larger banks look set to resist this temptation, and are hoping to gain permission to raise fresh equity, if and when the market is in a position to absorb it. Analysts reckon that the major banks are looking to raise around Y3,000bn in new financing over the next year to 18 months.

Depending on how the process is handled, the flood of new issues could have damaging knock-on effects for the securities market as a whole. But, as has been repeatedly stressed over the past few years, there are no painless ways out of a financial crisis this big. In the end, hefty loan write-offs, coupled with relatively rapid bank refinancing, are core ingredients of any medium-term solution.

Many Japanese non-bank financial institutions – whose bad loans probably dwarf those of the banks – have yet to admit the full extent of their losses, let alone face up to the necessary solutions. Set against that, the banks' long overdue response is a model of timely, decisive action. But they must now invest some of their new-found resolve into tackling not merely the liability but the asset side of their balance sheets.

Japanese banks have long had a tendency to put loan quantity before quality. As a result, they suffer from low profitability by international standards – and periodic mini, and not so mini, bad loan disasters. Despite extremely low interest rates, the banks have sensibly held back from large amounts of new lending over the past year.

But, given stagnant – or falling – asset prices, and a perennially over-leveraged corporate and financial sector, the banks ought to be expecting a good many defaulting loans in future, and building up their average profitability to compensate. By and large, they have yet even to recognise this underlying problem – still less to address it.

David Packard

The death of David Packard, co-founder with Bill Hewlett of the company that bore their names, is a reminder of how far the electronics industry has come since the two men started in business in Palo Alto 57 years ago.

Hewlett-Packard now has annual sales of $31bn; the orchards that once lined the peninsula from San Jose to San Francisco have been replaced by chip plants and software houses; and the automatic toilet-flushers and audio oscillators of Hewlett-Packard's early days have given way to computers, laser-printers and the Internet.

David Packard's achievements – as businessman, philanthropist and public figure – are recorded elsewhere in this issue of the FT. His death at the age of 83 is an appropriate moment, however, to note the wide-ranging influence of the style of business which he and Bill Hewlett pioneered. As founders of the first Silicon Valley start-up, they set the pattern others followed. This influence extended from trivial matters – the use of a garage as a first home, or the absence of office doors – to the profound. In this category fall such HP innovations as MBWA ("management by wandering around"); the widespread distribution of bonuses linked to the company's profits; and an open, collegial approach both to employees and to competitors. It is fair to say that there is scarcely a company in Silicon Valley which has not put into practice one aspect or another of "the HP Way", as the company calls its style of business.

A striking tribute to the two men is the effortless way the company coped with their graceful surrender of control. David Packard hated looking back at his own achievements; they are none the less his enduring monument.

A pass mark

Since the mid-1980s barely a year has elapsed without a government proposal for wholesale reform of England's education and training system. Many of the changes have been disastrous, and England's overall educational performance remains woefully inadequate. Cynicism and foreboding is therefore bound to greet the latest official blueprint, in the shape of yesterday's report by Sir Ron Dearing on the qualifications regime for 16- to 19-year-olds.

Sir Ron, the government's education troubleshooter, has a better record than most. Two years ago he rescued ministers from the damaging fiasco of the national curriculum, burying their attempt to dictate almost every detail of the school day. Yesterday's report is based on the same welcome premise of his earlier foray: that reform should henceforth be incremental, building on best existing practice and avoiding radical upheaval.

At the post-16 level this means building on A levels. For all their faults, the A level is one of the few pillars of English education to command general respect. For the most part standards are rigorous, courses are challenging, and if subject specialisation is unduly narrow this flows from a reasonable determination to ensure that students are adequately prepared for university.

The problem, of course, is that most school leavers do not proceed to higher education. Until recently the education system had virtually nothing to offer this majority, while the regime of work-based training and apprenticeships was little better beyond a few careers retaining a skilled craft tradition. The contrast with Germany and much of the rest of continental Europe was – and remains – stark.

Some improvements have been made. General National Vocational Qualifications, the new school-based vocational courses, are at last providing a non-academic route for students beyond the age of 16. More than 150,000 students are now pursuing these courses, and they are expanding rapidly.

Sir Ron recommends that GNVQs be renamed "applied A levels", with improvements in their assessment to justify this title. A new "advanced subsidiary" (AS) exam will offer a staging post to A level, with courses based on the first half of A level syllabuses.

He also proposes to abolish the current failed Youth Training system for school leavers and replace it with new "national traineeships" offering progression to vocational qualifications. Work-based vocational qualifications, roundly and rightly criticised for their lack of rigour, will be reformed to make them more "rational and coherent" and to "improve assessment and demonstrate rigour".

The first two changes – both sensibly incremental – are to be welcomed. The last two are more questionable. There have been previous relaunches of national youth training schemes and attempts to make work-based qualifications more rational and rigorous. They have all failed. In truth, the essential reason for their failure has been the very low levels of basic education achieved by most of those leaving school at 16. More chopping and changing is unlikely to help much. England's class-ridden educational culture is not so easily tackled.

An election that nobody wants

Neither politicians nor voters are enthusiastic about a poll likely to produce another unstable Italian government, writes **Robert Graham**

From billboards up and down Italy, a smiling Silvio Berlusconi promises five years of stable government. In a country facing its third general election in four years and where governments last on average less than a year, the media magnate's confident pledge has to be taken with a strong dose of scepticism.

Unusually in a western democracy, the main parties have spent the better part of a year desperately trying to avoid the April 21 elections.

"Most politicians have been afraid of going to the polls because they don't want to lose," observed one of the organisers of the campaign for Mr Romano Prodi, the leader of the centre-left Olive Tree alliance. "People seem to prefer to aim for a draw – preferably a goalless one."

Even now that the electoral campaign has got under way, there is a notable absence of enthusiasm – both among the politicians and an election-saturated public. This is not surprising. The parties, including Mr Berlusconi's Forza Italia movement, have little money to spend and the polls indicate a confused, close result.

More than a third of the electorate remains undecided; but the two main alliances of the centre-left and right have shown fairly consistent percentages in the opinion polls. At present, these give both around 45 per cent of the vote.

If the 8 per cent of the vote loyal to Reconstructed Communism – formed from the rump of the old Italian Communist party – is added, the centre-left enjoys the edge.

But much will depend on what happens in the rich industrial north where the populist Northern League of Mr Umberto Bossi has decided to stand alone. He fought the last election in alliance with Mr Berlusconi and won more than 100 of the 630 seats.

Under an electoral system which awards 75 per cent of the seats on a first-past-the-post basis and the remainder via the old proportional system, Mr Bossi recognises that fighting the election alone will lose the League three-quarters of its seats in parliament. But he hopes to win 20 or so deputy seats, which could hold the balance of power in a hung parliament.

If Mr Berlusconi and his allies can pick up the bulk of the seats surrendered by the League the right could emerge with a clear majority – at least in the chamber of deputies. The outcome in the senate, because of slightly different voting rules, permitting only those of 25 and over to vote, would be less predictable.

A new rightwing government would be very different from that led by Mr Berlusconi for just seven months in 1994 – his Forza Italia movement has changed considerably. The combination of the Northern League's breakaway and a weakening of the moderate liberal wing inside Mr Berlusconi's movement has pushed the alliance further to the right. It is much more under the influence of the rightist National Alliance led by the astute and charismatic Mr Gianfranco Fini.

A clear conflict has developed between Mr Berlusconi's declared commitment to the free market and the interventionist and corporatist views of the National Alliance. On Europe, the tone is more nationalistic than a year ago.

"The extreme right has got the upper hand [in the Berlusconi alliance] and, if they win, there's a risk of ungovernability with Italy moving further away from Europe," Mr Lamberto Dini, the caretaker prime minister, observed last week.

This comment contained an element of electoral hyperbole since Mr Dini has now formed his own party to fight the elections against the right. But it was an attempt to remind the electorate that the Berlusconi camp's contradictory economic policy – with its espousal of cutting taxes and ambiguous attitude to privatisation – finds little favour with the international financial community.

The centre-left alliance on the other hand is committed to pursuing a more virtuous economic path, reining in spending and perhaps raising taxes to bring down the budget deficit. Such action will be essential to achieve the convergence criteria in the Maastricht treaty for joining the European Union's single currency in 1999.

However, the centre-left is more fissiparous than the right, being comprised of 14 groups and parties with differing interests, which are bound to slow decision-making in a centre-left government.

Mr Berlusconi and his colleagues have kicked off the campaign with greater panache and have seized the initiative by setting the agenda – most notably on tax cuts and fiscal reform. The centre-left has failed to demolish Mr Berlusconi's ill-substantiated promises of reducing taxes, and has looked worthy and dull – a perception that penalised them in the 1994 elections.

However, Mr Berlusconi has been badly bruised by his brushes with the law. Not only is he on trial in Milan, accused of being involved in the bribing of members of the Guardia di Finanza (financial police) inspecting the books of his Fininvest group, but he also faces being sent for trial on four other counts of corruption. These problems are compounded by his failure to resolve the conflict of interest between his ownership of Fininvest, which controls three television channels, and his role as a politician. This has been one of the most sensitive issues since he entered politics, leading to accusations that he has used his media to bolster his standing. Since being forced from the premiership in December 1994, his popularity has declined and he risks losing the leadership of the right-wing alliance in this poll.

Mr Fini of the National Alliance, by contrast, is emerging as the effective leader. Indeed, his party now enjoys the support of more than 20 per cent of voters and may win a bigger share of the national vote than Mr Berlusconi's Forza Italia. This could make it impossible for Mr Berlusconi to become premier again.

Yet Mr Fini admits he is unlikely to be the next prime minister. He recognises that, as leader of a party which only last year formally expunged its fascist heritage, the public is not yet ready to accept him as the head of government.

This position is mirrored on the left, where Mr Massimo D'Alema of the Party of the Democratic Left (PDS), the party that dominates the centre-left Olive Tree alliance, has also excluded himself in advance from office. Mr D'Alema believes that the PDS, as heir to the old Communist party, still carries a political stigma in Italy.

As a result, formal leadership of the centre-left alliance has been handed over to Mr Prodi, who was loosely linked to the left of the old Christian Democrats and is seen as attractive to Catholic voters in the centre. But, without a real political base or funds, he has struggled for almost a year to assert himself.

That he has been found wanting is emphasised by the entry into the political ring of Mr Dini with his month-old centre party, Italian Renewal. Mr Dini is fighting the elections under the umbrella of the Olive Tree alliance. But, to the annoyance of the centre-left, his hastily formed grouping is going it alone in the contest for the 25 per cent of seats allotted by proportional representation.

He hopes to establish a degree of independence and raise his credentials as the next head of government at the expense of Mr Prodi. But this has served to remind voters of Mr Dini's opportunism: in the two years since he was recruited from the Bank of Italy to become treasury minister under a right-wing government, he has moved towards the centre-left.

He has remained caretaker prime minister rather than resigning when parliament was dissolved in February rather than resigning – leading to accusations that he is exploiting his government position for electoral gain. This risk has curtailed his electioneering, and his poll ratings have plummeted to around 4 per cent.

Such considerations suggest that winning the election may have little bearing on the formation of the next government. If the vote is close, several commentators are convinced the parties will try to form a government of national consensus across the ideological divide. A plan to form such a government foundered in February largely because the parties could not agree on how to split up the ministerial portfolios.

But the most likely outcome, as President Oscar Luigi Scalfaro warned when he dissolved parliament, could be another unstable legislature. The main consequences of this would be to slow progress in tackling the public deficit, reduce the will to modernise the state and allow the ever-growing divide between the prosperous north and neglected south to widen further. The prospect of five years of stable government looks as far off as ever.

Massimo D'Alema
Lamberto Dini
Gianfranco Fini
Romano Prodi
Silvio Berlusconi

·OBSERVER·

Tentative hold on life

■ There's not much point in being an $18bn-a-year conglomerate if nobody knows your name. So the Spanish state-owned Teneo group has recently been busy advertising itself in the country's major magazines with the upbeat slogan: "We are creating a future."

A bit of wishful thinking there, perhaps. The Socialist government – which created Teneo – has just been voted out of office. A future centre-right government may have second thoughts about whether Spain needs Teneo at all.

The company was set up three years ago as a holding unit for what were seen as the more viable state companies, among them the Iberia airline. But despite all efforts, such as adding to Iberia advertisements the words "a Teneo company", the name has not caught on.

One reason is that nobody up to now knew how to say it. The company insisted that the name – from the Latin for "I hold" – should be pronounced Ten-eo, but people such as taxi-drivers reckoned it was Ten-eh-o.

After consulting the Royal Spanish Academy, which said that while Latin words should not normally carry an accent the practice was permissible when the word was used as a title, it has changed its spelling. From now on it is Téneo, with the emphasis on the first syllable. Let's hope it survives long enough to make it worth the trouble.

Dear bill

■ In their haste to quell the extraordinary excitement engendered by the issuance of the new $100 bill, the US Treasury and the Federal Reserve Board would seem to be stretching a point. "The United States has never recalled or devalued any of its currency and will not do so now," goes the claim in the recent advert.

It does rather depend on what you mean by devaluation. The US may not have had a Weimar – or a Maastricht – but how about August 1971?

As the authorities can hardly have forgotten, that was when John Connally, Nixon's treasury secretary, was forced to close the gold window – preventing foreign central banks swapping their greenbacks for gold at the official price.

Just as long as they don't make a habit of devaluing the language as well.

Calvet slips gear

■ The race to succeed the fiery Jacques Calvet as head of Peugeot-Citroën took an unexpected turn yesterday with the surprise appointment of the Calvet's second-in-command, Jean-Yves Helmer, as chief of France's defence procurement agency.

Helmer's move to such a hot seat – given the French government's plans to rationalise the defence sector – means the field may now be clear for Jean-Martin Folz to succeed Calvet, when the latter retires in September next year.

Folz's move to Peugeot-Citroën from the Franco-Italian Eridania-Beghin-Say sugar and spices group last June immediately triggered speculation that the wily Calvet planned to offer shareholders the choice of an internal and external candidate for the succession.

Observers of Calvet – who yesterday fired a new shot at Japanese carmakers over exports to Europe – say there may yet be other surprises in the offing.

Fun and games

■ Yesterday's Kuala Lumpur soccer match between Korea and Japan, the final in a tournament to qualify for Atlanta's Olympics saw a 2-1 victory for Korea. Not that it mattered much – both had already qualified for Atlanta.

Of much greater interest is their off-pitch slogging match for the right to host the 2002 World Cup; there are no other contenders.

Old rivals – Japan's rule of the Korean peninsula only ended in 1945 – both have spent a fortune on lobbying and advertising their respective merits, much of it devoted to slagging each other off. There have been some most undiplomatic references to Japanese earthquakes and Korean political instability.

Matters reached such a state last week that the Malaysian head of the Asian Football Confederation, HRH Sultan Haji Ahmad Shah, stepped in and appealed to world football governing body FIFA to allow Japan and Korea to share it.

Which probably didn't go down too well in Japan, judged by most to be ahead on points. With two months before FIFA's 21-member executive committee makes its choice (on June 1), Japan will running hard to make sure that it wins the big one.

Fundamental tactic

■ What with neo-liberalism and the need to defend domestic markets from the invasion of imported products, doing business in Peru is pretty tough these days.

Who better, then, but America's General "Stormin' Norman" Schwarzkopf, hero of the Gulf war's Desert Storm campaign, to help fight the good fight?

Tonight he will tell Lima's besieged entrepreneurs how battlefield tactics can be applied to the boardroom – probably a variation on the theme of shoving laser-guided missiles through small holes.

Financial Times

100 years ago

Russian currency reform

St. Petersburg: It is stated on good authority that it is intended to introduce a new gold coin of ten roubles, the metallic value of which will be equal to that of the present paper rouble. The gold coin is to be a legal tender up to any sum, while silver coin for more than 50 roubles may be refused. The present gold coins "Imperial" and "Half imperial" are to be accepted in payment in the proportion of 1½ roubles of the new coin to one rouble of the old currency.

50 years ago

World gold output

The steep decline in world gold production through the war years was almost halted during 1945, according to provisional estimates published in the review of the well-known bullion firm Samuel Montagu. The year's total is put at 26,500,000 ozs, which is only 500,000 ozs below the figure for 1944. This contrasts with an average annual drop of 3,500,000 ozs between 1940, the peak production year, and 1944. One half of last year's decline was accounted for by a fall in Canadian production.

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FINANCIAL TIMES
Thursday March 28 1996

Radisson

Large banks 'must slash workforces by up to half'

By Alison Smith in London

Many large retail banks in North America, Europe and the UK will have to slash their workforces by up to half within the next 10 years, according to a report to be published next week.

One of the report's authors says they should do it quickly rather than gradually if they want to maintain the commitment of their employees and the reputation of their brand names.

The report, by the Economist Intelligence Unit and management consultants Coopers & Lybrand, argues that these banks' opportunities to increase market share will be severely limited in the next few years.

If they are to be able to pay for big investments in new products and services, they will have to cut the costs of their existing operations.

"Staff reductions of as high as 50 per cent by 2005 will not be uncommon," says the study, which draws on C&L research and more than 50 interviews with senior bank executives. The report comes within a few days of the announcement by Barclays Bank, one of the UK's largest banks, that it is offering voluntary redundancy to 1,000 managerial and clerical staff in high street branches.

The report foresees not only a sharp drop in staff numbers among large retail banks, but a change in the skills employees will require. There will be greater emphasis on managing customer relationships and on making better use of the information banks hold about customers.

It also forecasts significant change in how services are provided. Bank branches will move from being the most important delivery channel to being the least important.

Instead, screen-based banking through personal computers, television and more powerful cash machines will dominate, together with "express banking shops" – outlets in places such as offices and shopping malls where customers can meet bank staff and carry out simple transactions.

Mr Angus Hislop, the partner leading the C&L research, said banks would need to provide "anytime, anywhere, anyhow" banking for customers and to support that service by emphasising their financial strength and their brand.

However, it was difficult for staff to promote the bank's brand if their job prospects were uncertain. This added to the case for banks to act quickly in cutting employee numbers rather than looking for more gradual change.

He forecast that the pace of change would be greatest in the US and Australasia, while it would take longer in the more heavily regulated European markets.

Only in the Far East was the growth of the largest banks likely to be enough to enable them to avoid such significant job reductions.

"Building Tomorrow's Leading Retail Bank" will be available from The Economist Intelligence Unit on 0171 830 1007, price £325.

French defence role for Peugeot chief

By David Buchan in Paris

The French government yesterday named Mr Jean-Yves Helmer, head of Peugeot's car division, as chief of defence procurement and charged him with improving productivity by 30 per cent.

The defence ministry hopes an industrialist from a profitable private sector company will "accelerate" the procurement reforms begun by the previous "délégué général à l'armament", Mr Henri Conze.

Under President Jacques Chirac's 1997-2002 defence plan, Mr Helmer will have no more than FFr86bn ($17bn) a year (in constant 1995 francs) to spend on military equipment compared with FFr90bn last year. The squeeze is partly designed to allow a rise in pay to entice volunteers to the French army as conscription is phased out.

Mr Helmer will be the first civilian and, at 48, one of the youngest heads of the Délégation Générale pour l'Armament (DGA), the 48,000-strong industrial arm of the French defence ministry.

The government said yesterday that Mr Helmer would focus on "a re-evaluation of relations with defence companies, the priority given to European co-operation, and support for renewing and diversifying our [arms] exports".

It has instructed Mr Helmer to produce by September a reorganisation of the DGA to "marry efficiency with the least cost".

The terms and the nature of Mr Helmer's appointment recall the decision by the UK government in the mid-1980s to bring in a private sector industrialist, Sir Peter Levine, as head of defence procurement with the brief to get "best value for money".

Mr Charles Millon, the defence minister, underscored his concern for cheaper equipment when he said in a speech in Paris that it was now up to the aircraft companies to design an "economically viable" Future Large Aircraft military transport, whose present specifications were beyond France's means in its 1997-2002 programme.

Mr Conze made a start last year, demanding a 2 per cent cut in the cost of all French defence equipment bought by the ministry. Even this modest target was resisted, but defence restructuring, including the planned merger of Aérospatiale and Dassault and the privatisation of the Thomson electronics group, now has Mr Chirac's backing.

Mr Helmer's previous experience of the defence industry is limited to Giat, the lossmaking state-owned tank manufacturer. He joined its board in July. The government is having to recapitalise Giat with a FFr3.7bn injection to save it from bankruptcy.

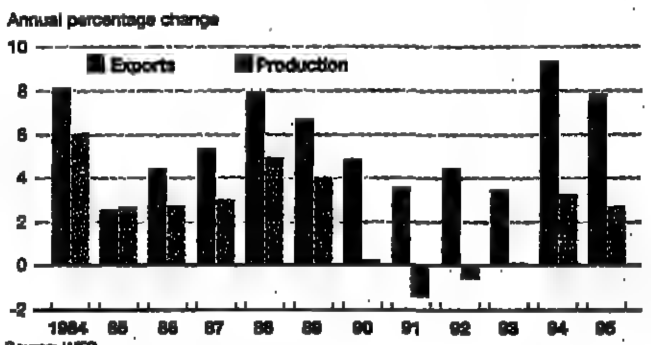
Observer, Page 13

WTO predicts robust trade growth, despite slowdown

By Frances Williams in Geneva

Growth in world merchandise trade

Annual percentage change



Source: WTO

The World Trade Organisation predicts a year of robust trade growth in 1996, despite signs of a modest slowdown in the second half of last year.

In a report published today, the WTO said it expected the volume of merchandise exports to rise by 7 per cent this year, more than double the increase in world output. This compared with trade growth of 8 per cent in 1995 and 9.5 per cent in 1994, the highest rates for a decade.

The combined value of world trade in goods and services exceeded $6,000bn for the first time in 1995. Goods exports totalled $4,875bn, up 19 per cent on the previous year, while trade in commercial services rose 14 per cent to $1,230bn.

The sharp value increase for trade in goods – the biggest rise since 1979 – mainly reflected a weaker dollar and higher prices for some commodities, notably crude oil and non-ferrous metals.

Noting that merchandise trade continued to outstrip output growth by a wide margin, the WTO said one contributing factor had been the rapid expansion in developing countries of processing trade – the assembly of manufactured goods for re-export using components and materials imported under special tariff regimes.

Processing and assembly factories in China accounted for nearly half the country's exports of $149bn last year and 45 per cent of its $132bn imports, the WTO estimated.

Trade has also been sparked by the information technology revolution. The value of exports of office and telecommunications equipment rose by more than a quarter last year and now accounts for 12 per cent of world trade.

Above-average increases in overall goods trade were posted by the Asian "tiger" economies, which increased imports even faster, Latin America and central and eastern Europe.

The US, Germany and Japan continued to top the rankings of the world's leading traders. However, if counted as a single country, excluding trade between members, the European Union headed the league table with a 20 per cent share of world merchandise trade.

EU makes concessions to Britain

Continued from Page 1

also mounted that the government was looking strongly at culling all 4.5m cattle aged over 30 months at the end of their productive lives.

The cabinet is due to discuss options for slaughter this morning and may announce its conclusions at the start of a Commons debate on BSE later today.

Mr Hogg told MPs the destruction of older cattle would cost about £550m a year in compensation to farmers. It is thought the scheme would run for about five years, totalling nearly £2.8bn.

Ministry of Agriculture officials are grappling with the problem of how to incinerate up to 15,000 cattle a week, if selective slaughter is introduced.

Mr Hogg defended his decision not to give advance warning to Mr Fischler, about the government's announcement last Wednesday on the possible link between BSE and CJD, the human brain disease.

THE LEX COLUMN

Short circuit

The drip-drip of bad news in the personal computer industry is fast turning into a torrent. In the last three days, Philips and Sony have announced profits warnings triggered by weakening sales of computer-related products. NEC has launched a significant restructuring, while Apple Computer has further demonstrated why it needed one. And Germany's Escom yesterday took the most dramatic step, when its chairman stood down, despite being the founder and 23 per cent shareholder.

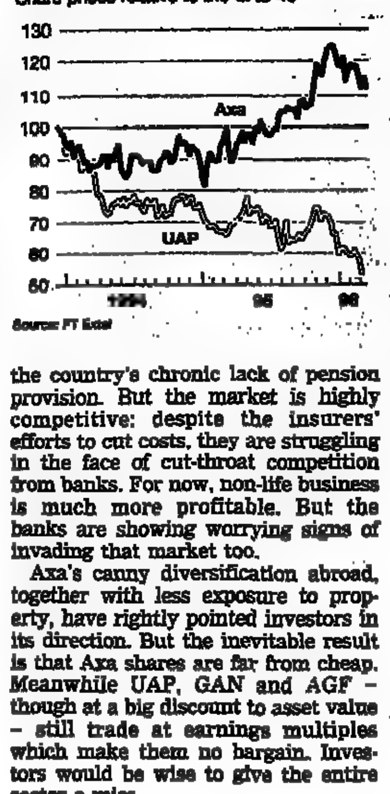
Given these cries of doom, it is easy to lose sight of the fact that demand for PCs continues to grow rapidly, albeit more slowly than the industry had hoped. The problems are related to new capacity at a time when computer manufacturers are cutting stocks. Memory chip prices have fallen by over 40 per cent since mid-1995 because of capacity increases, and this has spread across the electronics industry.

In the short term, the profits outlook is bleak, although at least computer companies can claw back some margin from cheaper components. But in the longer term, there are greater benefits. The process of consolidation within the computer industry should accelerate, to the advantage of those companies with the deeper pockets and global reach – although this is of little comfort to comparative weaklings like Olivetti and Escom. Meanwhile, semiconductor manufacturers are already scaling back expansion plans, helping demand to catch up once again with supply.

FT-SE Eurotrack 200: 1681.2 (+10.0)

French insurers

Share prices relative to the CAC 40



Source: FT Extel

French insurers

France's big insurers have been a disaster zone for investors. Only Axa, which managed to avoid property lending problems, has outperformed the market since the beginning of 1994. UAP, AGF and GAN have all drastically underperformed – and the bad news is unlikely to be over.

This week's heavy provisions from UAP are a case in point. In itself, the clearout cannot be criticised. But investors should question whether it is likely to be the last. For one thing, the property market remains distinctly soggy. For another, UAP may not yet have taken all the pain. It insists, for instance, on keeping big "strategic" stakes in Banque Nationale de Paris and Compagnie de Suez: these have not been written down to market value.

Moreover the insurers' problems lie in the future as well as the past. France's life assurance market, for instance, ought to be attractive, given the country's chronic lack of pension provision. But the market is highly competitive: despite the insurers' efforts to cut costs, they are struggling in the face of cut-throat competition from banks. For now, non-life business is much more profitable. But the banks are showing worrying signs of invading that market too.

Axa's canny diversification abroad, together with less exposure to property, have rightly pointed investors in its direction. But the inevitable result is that Axa shares are far from cheap. Meanwhile UAP, GAN and AGF – though at a big discount to asset value – still trade at earnings multiples which make them no bargain. Investors would be wise to give the entire sector a miss.

Kingfisher

Yesterday's upbeat trading statement from Kingfisher has won back the hearts of some confirmed bears. Certainly, like-for-like sales growth of nearly 7 per cent in the first six weeks of the financial year looks impressive. And yesterday's results confirm the turnround at Woolworths and Comet, where operational difficulties prompted a profits warning a year ago. And there is probably more to go for: margins at Woolworths are still some way off their historical peak.

Unfortunately, as ever, not all of the retailing conglomerate's parts are working well. B&Q, the market leader in the do-it-yourself sector, saw profits drop by nearly £30m to £55m. More worryingly, the strategy for putting things right appears confused. The much-vaunted programme for building larger warehouse stores has been cut back. This seems to be partly in an effort to cut down on development costs, which were up nearly £8m at B&Q last year. But if the warehouse format really is the way forward, it would surely have been better to push ahead in spite of short-term pain. And if it is not, the whole project should have been shelved. There is some comfort in the fact that an estimated £20m in cost savings has been earmarked through improved efficiencies – for once not a code-word for job losses. But the real hope for B&Q is that loss-making rivals in the market will at last pull out. The snag is that they are owned by well-capitalised groups, like W.H. Smith and Boots in the case of Do-It-All. Without rationalisation, B&Q's market leadership is of little help.

Pilkington

Pilkington is not blessed with a sense of timing: yesterday's £155m restructuring charge, coupled with a mild profits warning, comes less than five months after the glassmaker's £300m rights issue.

Having said that, the restructuring is the right thing to do. Glass manufacturers have undergone less rationalisation than other commodity producers like steel or paper companies. Pilkington, in particular, has lagged behind international rivals such as St Gobain and PPG of the US in terms of efficiency. And while Mr Roger Leverton, the chief executive, has done much to transform the formerly sleepy, family-run company, the size of this charge shows how much scope he sees for further improvement. Reorganising the automotive glass operations, so that individual plants concentrate on longer runs of fewer products, should boost productivity by up to 20 per cent.

Cutting back in Germany also looks sensible. Overcapacity in German building glass is running at 40 per cent and prices have dropped 15 per cent since November. The German construction market looks worse by the day, which will also hurt Redland, RMC and BPB Industries. Pilkington's decision to tackle the problem early therefore appears far-sighted.

The longer term outlook for the group is sound. A lower cost base should help margins to break into double figures; a quarter of profits comes from fast-growing markets in South America and Asia; and the balance sheet is strengthening. With this restructuring under its belt, Pilkington should be able to deliver steady improvement with no further surprises.

Additional Lex comment on Barratt, Page 20

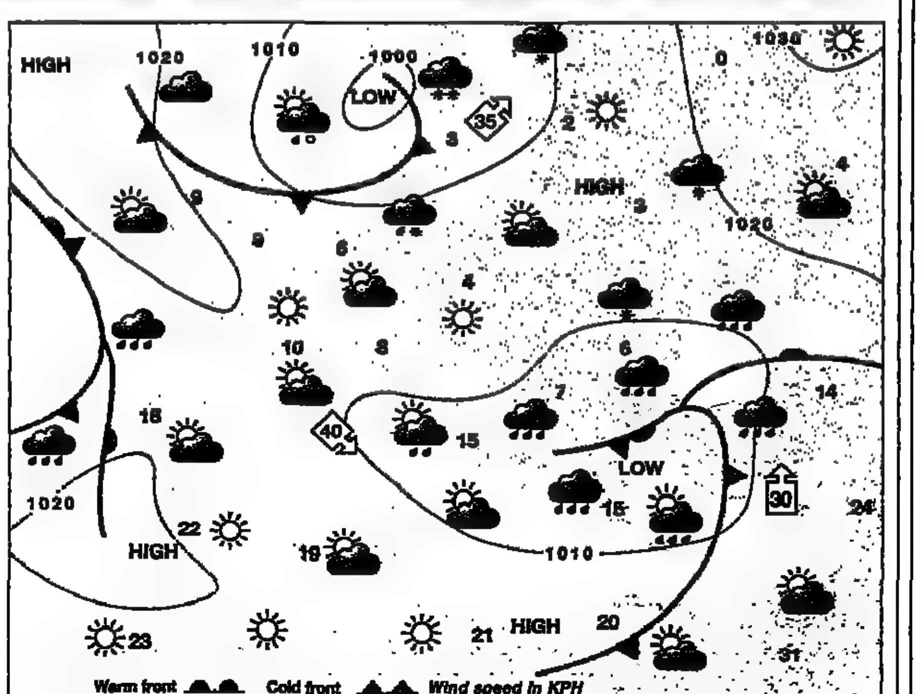
FT WEATHER GUIDE

Europe today

A front extending from southern Norway across Denmark and the North Sea to Scotland will move gradually over the Benelux accompanied by cloud and light rain. A broad strip from Brittany to southern Germany will be clear with bright sun. Most of southern France will have sunny spells but there will be showers in the extreme south-west and in Corsica. A new front will approach the Iberian peninsula bringing cloud and showers to north-western areas. However, the interior will be mainly clear. A complex area of low pressure over northern Greece will produce showers in Italy. Turkey will be unsettled with rain and brisk southerly winds. Russia will remain cold with patches of rain and snow around Moscow but the Crimea will be mainly clear.

Five-day forecast

High pressure will dominate the area from Iceland to the British Isles. The Benelux will have a cool north-westerly flow with clear skies and showers.France will be dry with abundant sun. A series of weak depressions will bring intermittent rain to the Iberian peninsula, particularly in the west. Low pressure will remain active in south-eastern Europe until Sunday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	17	Caracas	fair	30	Faro	fair	19	Madrid	fair	19	Rangoon	fair	37
		Celsius	Belfast	shower	9	Cardiff	fair	8	Frankfurt	fair	7	Majorca	fair	17	Reykjavik	fair	4
Abu Dhabi	fair	24	Belgrade	rain	6	Casablanca	fair	18	Geneva	fair	10	Malta	fair	18	Rio	fair	29
Accra	fair	32	Berlin	cloudy	7	Chicago	fair	11	Gibraltar	fair	20	Manchester	cloudy	9	Rome	cloudy	15
Algiers	fair	19	Bermuda	fair	21	Cologne	cloudy	8	Glasgow	cloudy	10	Manila	fair	31	S. Frsco	fair	16
Amsterdam	shower	6	Bogota	cloudy	19	Dakar	sun	25	Hamburg	rain	5	Melbourne	fair	26	Seoul	fair	17
Athens	fair	17	Bombay	sun	33	Dallas	fair	24	Helsinki	snow	1	Mexico City	fair	27	Singapore	fair	33
Atlanta	rain	20	Brussels	cloudy	6	Delhi	sun	33	Hong Kong	fair	24	Miami	fair	28	Stockholm	rain	4
B. Aires	fair	24	Budapest	cloudy	7	Dubai	fair	24	Honolulu	fair	27	Milan	cloudy	13	Strasbourg	fair	9
B.ham	fair	8	C.hagen	rain	5	Dublin	fair	9	Istanbul	rain	13	Montreal	fair	3	Sydney	fair	23
Bangkok	fair	38	Cairo	sun	29	Dubrovnik	rain	13	Jakarta	shower	31	Moscow	snow	-1	Tangier	fair	19
Barcelona	fair	17	Cape Town	fair	23	Edinburgh	cloudy	9	Jersey	fair	10	Munich	fair	4	Tel Aviv	fair	26
									Karachi	sun	32	Nairobi	fair	30	Tokyo	fair	16
									Kuwait	fair	27	Naples	cloudy	15	Toronto	fair	6
									L. Angeles	fair	18	Nassau	fair	28	Vancouver	fair	9
									Las Palmas	fair	22	New York	rain	11	Venice	fair	13
									Lima	cloudy	25	Nice	shower	17	Vienna	fair	6
									Lisbon	shower	20	Nicosia	shower	20	Warsaw	fair	3
									London	cloudy	9	Oslo	snow	3	Washington	rain	13
									Lux.bourg	fair	6	Paris	sun	9	Wellington	cloudy	18
									Lyon	fair	10	Perth	fair	24	Winnipeg	fair	-1
									Madeira	fair	21	Prague	fair	6	Zurich	fair	7

We can't change the weather. But we can always take you where you want to go.
Lufthansa

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Century Plaza Hotel, 2025 Avenue of the Stars

London – Wednesday 1 May at 6.15pm
London Business School, Sussex Place, NW1

London – Tuesday 2 April at 6.15pm
London Business School, Sussex Place, NW1

Johannesburg – Wednesday 8 May at 6.15pm
Rosebank Hotel, Tyrwhitt Avenue, Rosebank

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The Four Seasons Hotel, 21 Avenue Road

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Information about the MBA and Sloan Masters Programme will also be available.

Please attach a business card or write in block capitals to: The Information Officer, Finance Programmes Office, London Business School, Sussex Place, Regent's Park, London NW1 4SA, UK.

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FINANCIAL TIMES
COMPANIES & MARKETS

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IN BRIEF

Mediobanca slips to L171bn midway

Mediobanca, the Italian merchant bank, reported a consolidated pre-tax profit for the half-year to December 31 of L171.2bn ($109.5m), down from L288.5bn in the same period last year, after a L290.7bn writedown in securities. The parent company profit for the half-year was L100.4bn before tax, against L219.6bn, after provisions of L234.7bn. Mediobanca said L82.4bn of the writedown in securities related to shares in the holding company Ferruzzi Finanziaria, which it is buying as part of an obligatory public offer.

Morgan Stanley posts strong rise
Morgan Stanley Group continued the strong trend of earnings from investment banks, announcing first-quarter net income at $273m, compared with $187m in the previous quarter. After changing its year-end to November, the first quarter ran to February 29. Net income in the quarter to end-January 1995 was $39m, following 1994's bond market collapse. Page 19

Italy defends Banco di Napoli rescue plan
The Italian government justified its radical L3,500bn ($2.2bn) rescue plan for Banco di Napoli by arguing that the Neapolitan bank's collapse would have a serious impact on the national and international banking system. Page 17

Elf Atochem stalls expansion despite rise
Elf Atochem, the chemicals arm of French oil company Elf Aquitaine, said its plans to expand were being stalled by the uncertain outlook for chemicals. Its statement came despite an almost threefold increase in operating profits last year to FFr5bn ($988m), and a 65 per cent rise in cash flow. Page 17

Bremer Vulkan to hive off shipyards
Bremer Vulkan, Germany's largest shipbuilder which two months ago sought protection from its creditors, agreed to hive off two of its east German units for DM1. However, Bremer had to abandon its original intention of renouncing any financial responsibility for the yards. Page 16

Trafalgar House hinders Hongkong Land
Hongkong Land, the property investment arm of Jardine Matheson, announced net profits of US$256.8m for 1995, a fall of 30 per cent, as an improved operating result was offset by losses at Trafalgar House, the UK construction, engineering and shipping group. Page 18

Inco tops rival's bid for Diamond Fields
Inco, the world's biggest producer of nickel, has launched a C$4.5bn (US$3.3bn) bid for control of Diamond Fields Resources, the small Vancouver-based mining company which owns 75 per cent of the large Voisey's Bay nickel deposit in eastern Canada. Inco's move is aimed at thwarting its arch-rival Falconbridge, which last month won Diamond Fields' support for a C$4bn deal. Page 19

Pilkington cuts 1,900 jobs in restructuring
Pilkington, the UK glass making group, announced 1,900 job cuts, mainly in continental Europe and North America, in a wide-ranging restructuring which will cost £155m ($237m) in exceptional charges. Page 20

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
Allianz	2850	+	13.5	Air Liquide	909	+	22
Asko	909	+	19	Cred Natl	404	+	17.9
Kaufhof	472	+	8.5	Danone	830	+	62
Linde	927	+	22	L'Oreal	1516	+	47
VEW	433	+	11	Seb SA	755	+	15
Falls				Falls			
Kali & Salz	205	-	4	Imetal	716	-	9
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Hanna MA	35⅝	+	2¼	Fuji Spinning	548	+	45
Nabisco Hldgs	52¼	+	3¼	Nikkatsu	828	+	35
Safeguard Scien	54¼	+	3⅛	Kubota Corp	724	+	32
Falls				Nippon Shinpan	774	+	32
Fst Care Res	37¾	-	2½	Falls			
Inco	32¼	-	2¾	Kato Mant	750	-	20
James River	26⅝	-	1¼	Kyoderu	880	-	20
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				Rises			
Datrontech	228	+	17	St Eagle	23.0	+	0.6
Tibbit & Britt	505	+	12	HK Daily News	1.65	+	0.24
Falls				Wheelock	15.7	+	0.45
AromaScan	126	-	42	Falls			
Fitness	115	-	38	Ind Bnk Asia	5.3	-	0.2
Forminster	92	-	22	LCH Bank	11.15	-	0.35
Tom Cobleigh	212	-	33	Li & Fung	8.0	-	0.25
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				Rises			
Diamond Fids	39⅝	+	3½	Interlife	60.0	+	4.5
KNS Res Inc	11¾	+	1½	Thai Rubber	27.75	+	2.5
Philip Mt Bld	7⅝	+	1¼	Tisco	199.0	+	18.0
Falls				Falls			
Denison B	4	-	⅜	KR Precision	130.0	-	50.0
BMB Data	10⅝	-	¾	Thanakorn Co	63.0	-	12.5
Enex Tech	10⅝	-	¾	Trang Sea Fd	33.0	-	4.0

New York and Toronto prices at 12.30pm.

Viag plans to raise DM3bn for expansion

German industrial group to focus on telecoms through telephone network

By Andrew Fisher in Frankfurt

Viag, the German energy and industrial group, plans to raise DM2.9bn ($1.95bn) to finance expansion in telecommunications and other activities in one of Germany's biggest capital increases.

The new shares will be issued to shareholders on a two-for-seven basis at DM490 each, a 24 per cent discount on yesterday's closing price of DM642. Viag's biggest shareholder, the state of Bavaria with 25 per cent, will not take up its rights. This will dilute its stake to about 19 per cent.

Viag is one of several German companies to have formed telecoms alliances which now require heavy investment. With British Telecommunications and RWE, another German energy and industrial group, it plans to spend between DM3bn-DM4bn on building a German telephone network in the next four or five years.

Viag said it would also use the capital to invest in its other main sectors in Germany and overseas – energy, chemicals and packaging. Last year, the group more than doubled operating profits to DM2.1bn and it expects stable earnings in 1996.

Viag owns Bayernwerk, the electricity utility, and the Schmalbach-Lubeca packaging company. But it is focusing heavily on telecoms with investment mainly on new infrastructure.

Its consortium will compete with state-owned Deutsche Telekom and a group comprising Veba and Mannesmann of Germany, American Telephone & Telegraph of the US and Cable and Wireless of the UK.

Viag said the new shares would be issued from April 15-29 and would rank for the full 1996 dividend. The issue is being handled by a consortium led by Deutsche Bank with Bayerische Hypotheken und Wechsel-Bank, Bayerische Vereinsbank and Dresdner Bank as co-leaders.

The share rights waived by Bavaria have been sold to institutional investors. Viag's other big minority shareholders – the utility Isar-Amperwerke, Vereinsbank and Hypo-Bank – will take part in the issue.

The size of the capital increase and the emphasis on telecoms foreshadow Germany's biggest new share issue later this year – the DM15bn sale of Deutsche Telekom shares to German and foreign investors. As competition is set to increase in Europe's biggest telecoms market, the sums required for investment are huge.

The Viag, BT, RWE consortium hopes to win 10-15 per cent of the German fixed telecoms market over the next 10 years and will apply for Germany's fourth cellular mobile licence. The German telecoms market will be opened to full competition in 1998.

The total German telecoms market is worth about DM80bn a year and is expected to grow by 10 per cent annually to reach DM100bn-DM110bn by the end of this decade.

Beylier's appointment as managing director seen as prelude to wide-ranging changes at Anglo-French paper group

Arjo Wiggins head leaves after struggle for power

By Patrick Harverson in London

The power struggle at the top of Arjo Wiggins Appleton, the Anglo-French paper group, ended yesterday when Mr Alain Soulas stepped down as chief executive and Mr Philippe Beylier, head of the merchanting division, was promoted to group managing director.

The sudden departure of Mr Soulas – who is leaving with a severance package worth almost £1.3m – is expected to pave the way for sweeping changes this summer when Mr Daniel Melin, deputy chairman, completes a wide-ranging strategic review of the group's businesses.

Mr Melin, who is chief executive of St Louis, the French food and paper group which owns 40 per cent of Arjo, was appointed deputy chairman in December. He began his review in January and is considering a wide range of options to revive the group's fortunes.

"There are no sacred cows any more – everything's up for review," said one insider.

The management shake-up follows a disastrous year for Arjo. In 1995, its profits fell from £217m ($332m) to £72m and it was forced to undertake a £121m restructuring of its troubled European manufacturing operations.

After the poor results were announced earlier this month, Mr Melin is believed to have decided that Mr Beylier's more aggressive, strategically-minded approach to management was better suited to Arjo's needs than Mr Soulas's talents as an operational manager.

The decision ends a rivalry between the two that dates back to Mr Soulas's appointment as chief executive 3½ years ago. Since then, Mr Soulas and Mr Beylier, who was disappointed at being passed over for chief executive in July 1992, have clashed over strategy and management style. Mr Soulas's position was also undermined by his poor relationship with Mr Cob Stenham, Arjo's British chairman.

The City of London yesterday welcomed the changes, and Arjo's shares rose 6p to 304p. One analyst said: "At least the uncertainty is out of the way and the management team they've got now is the management team they want."

Analysts believe the European manufacturing operations, which recently were the direct responsibility of Mr Soulas, could be demerged from the group as part of a big restructuring that could also see Arjo sell its 43 per cent stake in Soporcel, a Portuguese pulp and paper mill.

Mr Melin is also considering the position of Appleton, Arjo's US carbonless paper business. Analysts said demand for carbonless paper in the US was in long-term decline.

Squaring up: Philippe Beylier (top left) is moving up at Arjo Wiggins and Alain Soulas (right) is moving on. Daniel Melin (bottom left), deputy chairman, is thought to prefer Beylier's more aggressive style

Moody's faces probe into bonds influence

By Richard Waters in New York

US regulators have launched an investigation into the way Moody's Investors Service, the credit rating agency, wields its power to win customers in some corners of the US bond market.

The investigation touches on concerns which have been raised in other countries about the way Moody's builds an influential position in bond markets.

The investigation, by the Justice Department, was prompted by complaints about Moody's use of unsolicited ratings, and will focus on the US's asset-backed and mortgage-backed bond markets, and the market for securities issued by municipal authorities.

Most credit ratings are requested by a company or other issuer of securities, which buys the service. Many investors will only buy bonds with a rating from a recognised agency, giving the institutions an influential position in the credit markets.

In some cases where issuers refuse to pay for a credit rating Moody's – along with other agencies – issues one unilaterally. These unsolicited ratings are based on public information rather than the in-depth and confidential inquiries undertaken in other cases.

The use of unsolicited ratings has been attacked in recent years by European issuers, with allegations that they are used by the agencies as a way of forcing companies and others to pay for a more thorough review.

Moody's said yesterday that it had received "any number of questions from authorities, both public and private" around the world about its ratings practices, including its controversial practice of allocating ratings in cases where they are not solicited.

"Ratings without the request of the issuers have always been a part of the [ratings] industry, all participants do it," Moody's said. "It's wrong to talk about holding a gun to someone's head."

Standard & Poor's and Fitch, two other US ratings agencies, said they had been asked for information by the Justice Department, and added that the authorities had indicated that they were only looking into Moody's. However, Moody's said it was "unclear" whether the other ratings concerns were also being investigated.

Standard & Poor's said it did not issue unsolicited ratings on bond issues in the municipal and asset-backed markets, or on issuers outside the US.

Chief of lossmaking Escom steps down

By Michael Lindemann in Bonn

The chief executive of Escom, the leading German computer retailer which recently reported unexpectedly high losses for 1995, is stepping down to make way for one of the company's former executives who had moved to International Business Machines.

Mr Manfred Schmitt, who holds 23 per cent of Escom, will be replaced by Mr Helmut Jost, who runs IBM's personal computer division in Germany.

Escom said Mr Schmitt had stepped down of his own accord, increasing speculation that he will focus on Hagenuk, the German mobile phone manufacturer which he bought from private funds last September. Mr Schmitt said he would become an adviser to Escom.

Since Escom announced 1995 net losses of about DM125m ($84.4m) earlier this month, Mr Schmitt has reduced his holding in the company from 48.5 per cent to 23 per cent.

Escom's other shareholders include Quelle, Europe's largest mail order group, and Siemens Nixdorf, the computing business of the Siemens group. Two weeks ago Mr Schmitt sold 7 per cent to Gold-Zack Werke, a Quelle subsidiary.

Mr Jost, who was responsible for Escom's sales and marketing until November, will face an uphill struggle.

Analysts say Escom has overreached itself through an expansion strategy in the UK and other European markets just as prices for personal computers are sliding.

The company recently admitted that it had to improve the way stock was moved between its three European storage sites in Germany, the Netherlands and Scotland. "We have to see how we can centralise things spread all over Europe," it said.

Escom faces fierce competition in Germany from Vobis, which last year launched an assembly programme allowing customers to design their own computers. Escom is running a pilot project for a similar assembly method.

However, an Escom executive yesterday said Mr Jost was well-suited to address Escom's problems. "There are few people who know how to sell personal computers better than he does," he said.

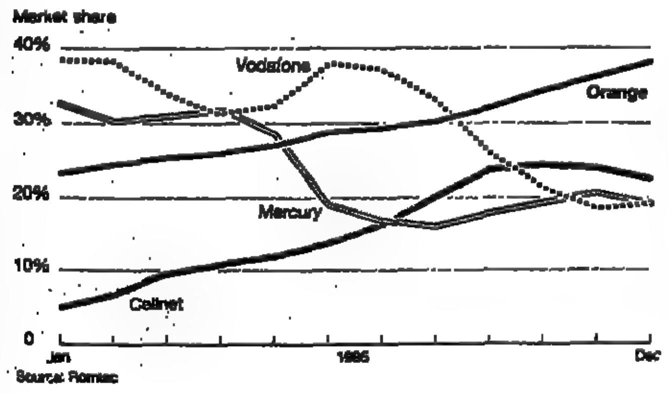
Sony and NEC reshape, Page 18

Schmitt: stake in company

Strong demand for shares in Orange

Pithy progress

UK digital networks rolling 3-month averages



Source: Romtec

By Alan Cane in London

Orange, the UK mobile phone company, saw its shares rise sharply yesterday after trading began in London and the US.

With the offer subscribed 10 times, the shares opened in London at 241.5p, a 19 per cent premium to the offer price. On Nasdaq in the US, the shares stood at $17¾ in early trading, having touched $18⅝. The shares were priced at $15¾ when trade began.

Initial trading was brisk. More than 10m shares changed hands in the first few minutes as institutions bid aggressively for a stock that is likely to join the FT-SE 100 index in June. The shares eased back to close at 237.5p in London.

Orange, which has made an operating loss since 1993, proved popular because it represents one of the few opportunities to invest in a mobile phone company which offers digital services.

About 325m shares, 25 per cent of the total, were on offer and of these about 26m were allocated to UK retail customers. Of the balance, about 46 per cent was allocated to institutional investors in the UK and Europe, while 40 per cent went to North America.

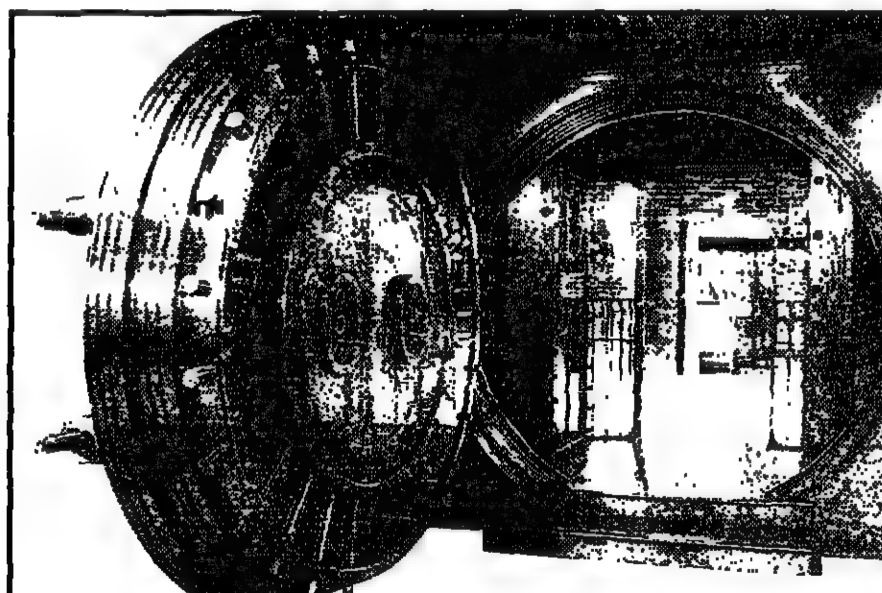
As an indication of the group's confidence in its pricing, a further 32.5m shares were made available yesterday through an over-allocation exercise to institutions at the offer price.

The shares were derived pro-rata from Orange's owners Hutchison Whampoa and British Aerospace.

About 33,000 applications for the retail offer were received. The allocation was heavily skewed towards the retail investors, with applicants putting up the minimum bid of £1,000 getting about 80 per cent of what they wanted.

The flotation values the group at £2.45bn ($3.7bn) at the offer price and raised £624m before the exercise of the over-allotment option. After over-allotment, Hutchison Whampoa holds 47.43 per cent of the shares and British Aerospace 21.48 per cent.

Dealings in the shares will remain conditional until April 2 when investors will be notified of their allocations.



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Bremer Vulkan set to hive off shipyards

By Judy Dempsey in Berlin

Bremer Vulkan, Germany's largest shipbuilder which two months ago sought protection from its creditors, yesterday agreed to hive off two of its east German units for a symbolic DM1, but with no general renunciation of outstanding claims.

In what is seen as a victory for the east German state of Mecklenburg-Vorpommern, where the shipyards are based, as well as the European Commission, Bremer Vulkan and the lawyers overseeing the proceedings were forced to back down from their original intention of renouncing any financial responsibility for the yards.

The Mecklenburg-Vorpommern government and the Commission had insisted that the shipyards could only be hived off provided Bremer Vulkan assumed some financial responsibility.

Under the management of Mr Friedrich Hennemann, forced to resign last December, Bremer Vulkan had bought the MTW Schiffswerft and Volkswerft yard from the Treuhand privatisation agency in 1992 on condition it invest more than DM1.4bn ($948m) in restructuring costs. However, more than DM760m of investments due to these two shipyards had been siphoned off last year and channelled into Bremer Vulkan's loss-making west German operations. Bremer Vulkan expects losses of DM1bn for last year and has outstanding bank loans of more than DM1.4bn.

Yesterday's decision means that the MTW and Volkswerft shipyards will be independent from any decisions made by Bremer Vulkan's management and lawyers, who are drawing up a new strategy in a bid to stave off final bankruptcy and save as many jobs as possible. The group has more than 22,500 employees.

It also means that MTW and Volkswerft must seek new owners or else be placed under the BvS, the successor to the Treuhand. The first option will require an injection of capital to compensate for the investments never made by Bremer Vulkan. Mecklenburg-Vorpommern government officials estimated they required about DM1bn to complete the restructuring, find new markets and raise productivity levels, currently 60 per cent below west German levels. The yards and the BvS will form a holding company for this purpose.

An official added that any new capital would require permission from Brussels. The Commission is taking a more detailed look at the way in which German government-backed subsidies to enterprises sold by the Treuhand have been disbursed.

As regards the second option, the BvS is reluctant to take back the east German shipyards, as it would set a precedent. The BvS recently hired consultants to carry out studies of MTW and Volkswerft, and is close to recommending bankruptcy for Volkswerft because it expects losses of about DM200m. Government officials in Mecklenburg-Vorpommern argue the losses are exaggerated and also fail to take account of the shortfall in investments pledged by Bremer Vulkan.

Specialisation sparks turnround at Barco

Belgian electronics group is concentrating on niche markets, writes Caroline Southey

Small has spelt success for the Flanders-based electronics company Barco. In just 10 years it has turned heavy losses into comfortable profits, mainly by shedding 50 years of corporate baggage, concentrating on specialised niche products and exploring markets beyond Europe.

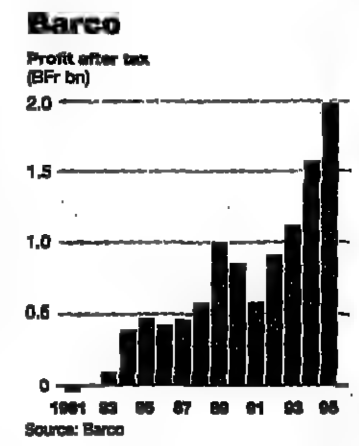
For the company, rated by analysts as "small to medium-sized", the turnround at the company has been dramatic. From near-bankruptcy in the early 1980s, Barco has posted profits every year since the early 1990s.

Results announced yesterday confirmed this trend, with net profits up 37 per cent from BFr1.31bn to BFr1.8bn ($59m) and turnover up 30 per cent from BFr11.6bn to BFr15.1bn.

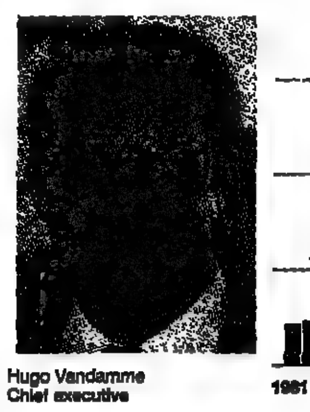
The turning point came when the company moved out of consumer products, which in 1980 made up 85 per cent of turnover, to concentrate on a number of high-value-added niche markets and producing products for professional users.

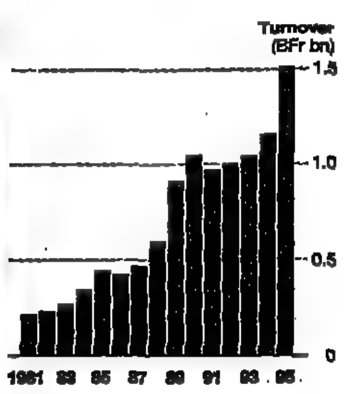
Barco shed its last consumer product in 1989. The company had been created in 1934 as the Belgium American Radio Corporation to make radios for the Belgian market, graduating shortly afterwards to televisions.

Mr Hugo Vandamme, Barco president and chief executive, makes clear that there is no turning back. "Our aim is never to get drawn into the volume market, because once you are in mass manufacturing, it is impossible to change," he says.



Source: Barco


Hugo Vandamme
Chief executive



Barco's product line now has a distinctly specialist feel. Its visualisation and communications division, which accounts for 53 per cent of turnover, produces projectors, control monitors for television studios (bought by NBC of the US and BBC in the UK) as well as satellite receivers and modems for cable and satellite broadcasters, among other things.

Products from the graphic systems division (26 per cent of turnover) are aimed at prepress systems and include software packages for retouching images on films and transparencies. The automation division (16 per cent of turnover) has expanded from producing automated systems (computer integrated manufacturing) for textile production to sectors such as plastics, used by Lego of Denmark, and rubber.

Barco places a high premium on product innovation. It devotes 10 per cent of turnover to research and development and prides itself on a management style that has created highly motivated research teams.

Mr Vandamme says employees are involved in identifying future areas of growth and developing new avenues for old products. "If, over a two-year period, we cannot come up with ideas on how to grow with existing products we find ways of getting out," he says.

The second most important aspect of Barco's strategy has been geographical expansion. "We know that developing products that we can only sell in Europe is not good enough. To have real potential for growth we must go for bigger markets," he says.

Barco has found those markets in the US and increasingly in Asia and Latin America. From a small contribution of 5 per cent of turnover five years ago, sales in Asia now represent 20 per cent. The company has recently acquired a distribution network in Japan and has opened offices in Beijing, Shanghai, Hong Kong and Singapore.

But analysts point out that Barco's successful push into foreign markets carries risks. Analysts N. V. Petercam warn that "exchange rate evolutions might have sizeable consequences on Barco activities since its natural market is on a worldwide scale whereas the production and research facilities are mainly concentrated in Belgium".

Barco's latest results highlight this vulnerability. Mr Vandamme announced that gross margins had fallen due to "unfavourable exchange rate developments".

The question is where Barco intends to draw the line in its quest for foreign markets. Of the company's 3,000 employees, 1,000 are abroad. Could the company abandon its Flemish roots and base itself elsewhere?

Mr Vandamme is cautious about predicting how far Barco's foreign expansion might take it. But he concedes that it is "better to make products in the neighbourhood of the most demanding markets".

Barco already has small manufacturing facilities in the US, Germany, Switzerland and the UK. A research and development unit is being set up in Bangalore and it plans to start manufacturing in India.

Mr Vandamme refuses to be precise about how this evolution might effect Barco. But he nevertheless suggests a very different future for company. "We must expect that in the next 20 years our growth will be outside Belgium. To be successful we must be present where the markets are".

Polish bank set for $50m international bond issue

By Christopher Bobinski in Warsaw

Poland's listed Export Development Bank (BRE) is set to become the country's first bank to launch an international bond issue, with a $50m placement planned for next month, Mr Krzysztof Szwarc, the bank's chairman, said yesterday.

The issue follows Poland's debut sovereign eurobond issue last year. The $250m five-year offering was priced to yield 185 basis points over US Treasuries, but the spread has since fallen to 105 basis points.

BRE's shareholders must approve the bank's issue of three-year dollar-denominated floating rate notes at the end of this week. The offering, which will be arranged by Merrill Lynch, will yield not more than 150 basis points over the London interbank offered rate (Libor). Part of the $50m issue will go to financing the purchase of the Konin aluminium smelter by Impexmetal, a state-owned metals trader.

This week's shareholder's meeting, which will be voting to approve a dividend amounting to 21 per cent of last year's net profit of 105.4m zlotys ($40.8m), will also be asked to approve further bond issues worth $100m.

"We're doing this to give us the opportunity to raise more funds should the need arise," Mr Szwarc said.

The issue comes after a year in which the BRE, Poland's eleventh largest bank, almost doubled its net profit. The first two months of this year have seen net profits running almost 30 per cent higher than last year's monthly average.

Mr Szwarc cited his bank's link with Commerzbank of Germany, which holds a 21 per cent stake, as a main factor in BRE's success. "Commerzbank has brought us know-how and is helping us to raise our profile and bid for large clients."

Last year, BRE's balance sheet grew 83 per cent to 2.6bn zlotys, while return on equity improved from 33.2 per cent in 1994 to 35.6 per cent in 1995.

NEWS DIGEST

Suntory sells its California vineyard

Suntory, Japan's largest whisky and beer company, has sold its Californian vineyards to a Texan-led group which recently paid Nestlé more than $300m for the premium Napa Valley producer, Wine World Estates.

The $30m disposal of the Chateau St Jean Vineyards and Winery, for which Suntory paid $40m more than 10 years ago, marks a further retreat from California's high-cost wine industry.

Texas Pacific, a $720m private investment partnership, was advised on the deal by Silverado Partners, a Sonoma Valley winery operator and consultancy, which will purchase a minority stake in St Jean. Silverado has a similar holding in Wine World Estates.

Although Californian wine's prospects appear to be improving – sales of premium labels rose 15 per cent last year while table wines increased 5 per cent – production costs are high in comparison with levels in developing countries. Northern Californian land is about 10 times as expensive as Chilean acreage, for example, and labour costs and bulk grape prices are several times higher.

Suntory, which still owns a Los Angeles brandy distillery that exports mainly to Japan and several US restaurants, recently paid $300m for a mid-Western bottled mineral water company.

Observers said the Japanese group had invested heavily in expanding output from St Jean by about a third during its ownership. St Jean, a producer of premium whites, has some 200 acres of vineyards and annual revenues of about $20m. Wine World, which crops 6,500 acres, is best known for its reds. It had annual sales of some $200m. Mr Michael Moone, one of the Silverado partners, is a former president of Wine World.

Silverado, which will run the joint operations, owns the Luna Winery and more than 900 acres of Californian vineyards in its own right.

Texas Pacific has a wide range of holdings, including stakes in airlines, healthcare, food, entertainment, telecommunications and waste management industries.

Christopher Parkes, Los Angeles

Aga in power stake sale

Aga, the Swedish industrial gas group, yesterday sold its 34 per cent shareholding in the power group Gullspangs Kraft to Finland's Imatran Voima for SKr3.1bn ($467m). The deal is the latest sign of restructuring within the Nordic power industry prompted by deregulation of energy markets.

The sale also completed a move by Aga to concentrate on and invest heavily in its core operations of supplying industrial and medical gases.

In 1994 Aga disposed of its cold storage business, Frigoscandia, and in 1995 sold its shareholding in the steel group Avesta Sheffield.

The Gullspangs sale yielded a capital gain for Aga before tax of SKr1.8bn – but Aga said the effect on pre-tax results, excluding capital gains, would be marginal. Gullspangs Kraft is one of Sweden's biggest electricity producers, generating some 12bn kWh a year, using mainly hydro and nuclear power.

Gullspangs returned pre-tax profits in 1995 of SKr720m. Imatran Voima will become its chief owner, controlling 44 per cent of Gullspangs' voting capital.

The purchase is the latest example of cross-border investments by Nordic power producers following the deregulation of energy markets in Finland, Norway and Sweden, which allow electricity users to buy power from suppliers outside their home markets.

Hugh Carnegy, Stockholm

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March 1996

OLD MUTUAL

U.S. $200 Million

"Assets Swapped"

Bankers Trust International PLC ("BTI") is pleased to announce the successful structuring and completion of a further U.S. $100 Million "Asset Swap" between BTI and South African Mutual Life Assurance Society ("Old Mutual"). This follows the successful U.S. $100 Million Asset Swap announced during February 1996 and brings the total assets swapped during February and March to U.S. $200 Million.

These transactions were undertaken after South African Reserve Bank and Financial Services Board approval was sought and received by Old Mutual. Bankers Trust International PLC acted as counterparty to Old Mutual in these matters.

Bankers Trust International PLC

Bankers Trust International PLC is regulated by the SFA.

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NEWS DIGEST

Deutsche Bank edges ahead

Deutsche Bank, Germany's biggest bank, yesterday announced a slight rise in parent company net profits to DM1.59bn ($1.07bn), against DM1.575bn last time, and in the amount allocated to reserves, but left details of its full group results until today's press conference.

It also confirmed it would pay shareholders a dividend of DM1.80, up from DM1.65. The amount transferred to reserves totalled DM700m against DM650m. Shares eased in late trading by 24 pfennigs to DM76.14 after a day's high of DM76.98, as dealers expressed disappointment with the results.

The bank also confirmed the appointment to its board of Mr Michael Dobson, chief executive of Deutsche Morgan Grenfell, the group's investment banking operation. Mr Dobson, 43, will take up his board position after the annual meeting on May 23. *Andrew Fisher, Frankfurt*

Linde eyes acquisition

Mr Hans Meinhardt, chairman of Linde, the German conglomerate, said the company was looking to diversify into a fifth area of business, but declined to give details. Linde is currently active in four areas: materials handling, plant construction, industrial gases and refrigeration technology. "We want to grow and we must grow," Mr Meinhardt said. "We want to buy a fifth division but it cannot be just any old one; it must fit in with the group as a whole." He said the size of the new division would be around DM5bn ($3.38bn).

"Linde needs to be around double its current size, both in sales and earnings," Mr Meinhardt said. "We need to grow to between DM11bn and DM12bn [in sales] from our own resources, and the rest will be done via acquisitions." Linde said it expected 1996 sales growth of more than 5 per cent, compared with DM8.394bn a year earlier, and earnings to be higher than in 1995. *AFX News, Wiesbaden*

Crédit National advances

Crédit National, the French banking group, yesterday reported net income up sharply from FFr67m to FFr463m ($91.63m) for 1995, despite intense competition in the country's financial sector. Banking income rose 11.7 per cent to FFr2.1bn, and operating income was up 12.6 per cent to FFr874m.

The group increased its provisions against a deterioration in the property market, for its loans to Eurotunnel, and against stakes in Crédit Foncier de France and the Compagnie du BTP, two specialist French banks. It recommended a dividend of FFr13.50 a share, up 12.5 per cent.

During the current year, Crédit National will absorb the previously state-controlled Banque Française de Crédit Exterieur. That will create an institution with combined assets of FFr334bn, net capital of FFr17.3bn and a solvency ratio of 9 per cent. *Andrew Jack, Paris*

Petrofina increases dividend

Petrofina, the Belgian integrated oil company, is proposing a 10 per cent increase in its net dividend from BFr240 to BFr264 – ahead of analysts' forecasts. The rise, announced yesterday, compared with the 12.6 per cent increase in net profits for 1995 from BFr10.3bn to BFr11.6bn ($382m) disclosed in January. But, since last year's dividend included a one-off payment of BFr40 to mark the group's 75th anniversary, analysts had not expected this year's increase to be so large.

Petrofina said the strength of the 1995 results, after it rationalised its upstream interests as part of its strategy of expanding its downstream businesses, had given it confidence for the future. The 1995 profits included an exceptional charge of BFr1.3bn, while the previous year's figures were boosted by BFr2bn of exceptional gains.

Sales and operating revenues fell from BFr580.6bn to BFr563.2bn, but operating profits from on-going businesses increased from BFr23.3bn to BFr32.8bn. Operating profits in the upstream division rose from BFr9.9bn to BFr13bn, thanks to a $1.20 a barrel increase in crude prices, and higher European production. But downstream profits fell from BFr4.9bn to BFr0.1bn, due to a fall in refining margins and the dollar's weakness. *Neil Buckley, Brussels*

Philips plans investment

Philips, the Dutch electronics group, said yesterday it planned to invest Fl 800m ($484m) in expanding output at its main semiconductor plant in the Netherlands. The announcement came just two days after the company warned investors that first-quarter net profits would be significantly lower, partly because of lower demand for semiconductors from the computer industry.

Mr Doug Dunn, chief executive officer of Philips Semiconductors, said the slowdown in the worldwide semiconductor industry was relative, with growth rates still healthy though below the 1995 peak of 40 per cent. "Long-term, Philips Semiconductors will continue to be a high profit generator for the company." *Ronald van de Krol, Amsterdam*

Imi lifts payout

Imi, the Italian investment bank posted full year consolidated profits for 1995 of L551.8bn ($351m) against L551.2bn in the previous year. The board proposed a dividend of L500 a share compared with L400. *Reuter, Rome*

Correction

The Wallenberg family's pulp and paper interests are in Stora, not SCA, as stated in yesterday's Lex column.

Rome defends rescue plan for Banco di Napoli

By Andrew Hill in Milan

The Italian government yesterday justified its radical L3,500bn ($2.23bn) rescue plan for Banco di Napoli by arguing that the Neapolitan bank's collapse would have a serious impact on the national and international banking system.

Italian treasury officials said yesterday they believed the government had "arrived in time" to rescue the bank, which is set to announce a heavy loss for 1995 tomorrow. But the same officials agreed that there were "strong elements of uncertainty" about the potential success of the bank's restructuring plan.

The government plan amounts to a form of treasury administration for Banco di Napoli. The treasury will take temporary control, impose its own board, and try to privatise the bank towards the end of 1997. Sources close to the bank said yesterday they believed Mr Federico Pepe would remain as managing director, a job he took on last year with a mandate to carry out drastic restructuring.

The treasury said it did not believe the operation would attract the attention of the European Commission – which examines cases of potential illegal state aid – but it was prepared to justify the manoeuvre to Brussels if necessary.

A government decree, approved late on Wednesday, envisages the transformation of a L1,000bn treasury loan – part of last year's short-term emergency loan package of L2,500bn – into a longer-term subordinated loan.

Provided that other banks are prepared to join in, the restructuring plan is sufficiently tough, and unions agree to a cut in labour costs, the treasury would then be prepared to underwrite up to L1,000bn of capital increases. The government expects other Italian banks, including some of the group which backed last year's emergency loan, to contribute between L1,000bn and L1,500bn, either in the form of subordinated loans or debt-equity conversion.

Few banks were prepared to commit themselves unequivocally yesterday to assisting Banco di Napoli, and at least two which assisted with the original loan – Banca Popolare di Verona and Cariplo – ruled out participation in any capital increase. Imi, one of Italy's most profitable banking and financial groups, said it was not prepared to take part in a recapitalisation although it could assume some of Banco di Napoli's loan portfolio.

According to banking analysts, the collapse of Banco di Napoli would put a strain on the banking system because of the high level of interbank deposits between the Neapolitan bank and its national and international competitors.

Uncertain outlook stalls Elf Atochem expansion plans

By Jenny Luesby in Berlin

Elf Atochem, the chemicals arm of Elf Aquitaine, the French oil company, achieved an almost threefold increase in operating profits last year, to FFr5bn ($989m), and a 65 per cent rise in cash flow. However, its plans to expand were being stalled by the uncertain outlook for chemicals, it said yesterday.

Mr Jacques Puechal, chairman, said business had not yet "returned to normal" after last year's sharp swings in demand and prices. Operating profits had risen from FFr1.8bn in 1994 on sales up 3.7 per cent at FFr55.5bn, but at least FFr1.5bn of the FFr3.2bn rise was due to favourable market conditions in the first half of last year.

Prices for bulk plastics – which with their raw materials account for more than a third of the company's sales – rose 50 per cent, before falling by almost as much in the second half. Speculative stock building by buyers of plastics, as prices were rising, was followed by a 10 per cent fall in demand in the second half as they used up stocks.

Improved sales in the first quarter this year suggested customer destocking was ending, but demand was not yet sufficient to justify normal production levels, said Mr Puechal.

In Europe, he predicted a "gradual return to balance" in the first half and a "more normal level of activity in the second half".

However, the uncertainty was stalling moves towards industry consolidation, despite the widespread availability of cash and the need to reduce the number of competitors in some sectors.

Elf Atochem has raised FFr5bn from divestments. This could be used for acquisitions. In addition, $800m on the sale last April of Elf Aquitaine's phosphates business, Texas Gulf, had been earmarked for expansion into Elf Atochem's speciality chemicals operations.

Elf Atochem's cash flow increased from FFr4.6bn in 1994 to FFr7.6bn. "We have the capability to acquire, but the mood is too pessimistic at the moment," said Mr Puechal.

Elf Atochem, which has doubled its sales in the last 10 years, has traditionally been highly acquisitive, using the cash generated by its plastics business to move into niche speciality markets.

This would continue in the medium term, said Mr Puechal, with the company aiming to lift the share of speciality chemicals within its business from 50 per cent last year, to two thirds by 2000.

"But the emphasis for this year is on stabilising chemicals businesses," he said.

Last year, FFr1bn of the company's increased operating profits came through expansion into new sites and acquisitions.

A further FFr700m was the result of increased productivity, especially in fertilisers, where a restructuring in 1993 saw the business move from break even in 1994 to operating profits of FFr220m last year.

Dividend possible after Pirelli beats forecasts with L304bn

By Andrew Hill

Pirelli, the Italian tyres and cables manufacturer, yesterday beat analysts' forecasts when it announced it had doubled net group profits in 1995 to L304bn ($198m).

The parent company also returned a profit of L141bn for the year to December 31, against a loss of L2bn in 1994, raising expectations that Pirelli might pay its first dividend for four years. The release of the results prompted a late rise in Pirelli's share price, which reached L2,220 before closing at L2,187, up L68 on the day.

Pirelli will announce detailed results for 1995 on April 19, including any decision on whether to propose a dividend, which would be the first since its ill-fated attempt to take over Continental, its German rival, in 1991.

Since then, under Mr Marco Tronchetti Provera, the chief executive, Pirelli has restructured and moved further into high-technology and high-margin sectors of the cable and tyres business.

Turnover in 1995 rose from L9,790bn to L10,393bn, an increase of 8 per cent if favourable first-half exchange rates are evened out. Pirelli's sales are normally about equally divided between cables and tyres, but the group did not break down the preliminary results by sector.

Operating profit rose from L433bn to L636bn, on improvement in margins from 4.4 per cent to 5.8 per cent. Extraordinary provisions of L108bn, up from L2bn in 1994, were mainly accounted for by further reorganisation and restructuring charges, but the effect on net profits was partly offset by a reduction of L63bn in financial charges. Earnings per share rose from L73 to L165.

During last year, Pirelli said it had reduced its net debt by L100bn to L1,406bn, or 37 per cent of net equity, even though capital expenditure rose from L422bn to L485bn, and research and development spending from L287bn to L302bn.

More than half of Pirelli's L2,200bn investment programme for the three years ending in 1996 has been earmarked for its cables business, with the aim of keeping up with competition and innovation, particularly at the high-technology end of the market.

For example, Pirelli is working with US groups on the construction of a prototype underground high-temperature superconductor power cable transmission system, which could substantially increase the capacity of existing electric power transmission channels.

Pinault Printemps Redoute ahead as diversity helps sales

By Andrew Jack in Paris

Pinault Printemps Redoute, the French retail group, yesterday reported net income up 25 per cent to FFr1.52bn ($301m) in 1995 despite the economic difficulties which beset the country late last year.

Sales increased 9.9 per cent to FFr77.8bn, or 2 per cent in comparable terms – leaving out the the FNAC books and records chain which was integrated during 1995.

The group said its diverse activities – which cover a wide range of retailing – enabled it to boost turnover despite a slowdown in economic growth.

Turnover fell 0.7 per cent in its mass market division, reflecting a drop in visitors to its shops and in orders by post during the strikes and bombings in Paris during the second half of last year. It estimated the costs at FFr500m.

Its CFAO subsidiary reported an increase in sales of 20.9 per cent because of the positive economic environment in Africa after the CFA franc devaluation, while turnover at its professional sales division was up 4.2 per cent.

Operating profit was up 11.1 per cent – or 9.4 per cent in comparative terms – to FFr2.99bn, giving it a margin of 3.8 per cent against 3.5 per cent in 1995. The group said the increase was the result of management and productivity gains.

Net financial charges fell from FFr588m to FFr554m, which it said reflected greater discounts obtained from its suppliers.

Exceptional charges fell from FFr266m to FFr171m, reflecting a FFr150m depreciation of its investment in Comipar, a holding company, as well as reorganisation costs and a number of sales of holdings.

Group net debt fell from FFr12.1bn to FFr10.9bn, the third consecutive year of reductions in gearing. Its capacity to finance future activity from its own cash resources rose from FFr2.4bn to FFr2.8bn.

Operating investments rose from FFr1.13bn to FFr1.19bn, reflecting a renovation programme for its mass market stores and improvements to its information systems.

The group said that consumers, compensating for the strikes at the end of last year and taking advantage of sales from the start of 1996, had helped boost turnover in the mass market divisions in January and February, which showed turnover up 2 per cent in constant terms on the same period of 1995.

TOTAL 1995 CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND

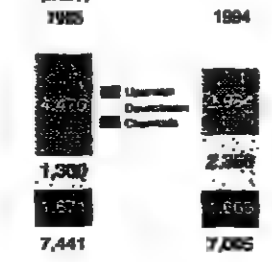
1995 RESULTS AND DIVIDEND INCREASE BY 9 PERCENT
NEW BOARD DIRECTORS NOMINATED

TOTAL's Board of Directors chaired by Thierry DESMAREST met on March 26, 1996, to review the 1995 consolidated financial statements and to close the accounts of the parent company, TOTAL SA.

1995	1994
(In Millions of French francs MFF)	
Sales	
135,829	136,743
Operating results before FAS 121	
7,441	7,005
Net income (Group share) before Non-Recurring items	
3,703	3,385
Net income (Group share)	
2,248	3,385
Earnings per share (in FF) before Non-Recurring items*	
15.8	14.6

*based on fully-diluted weighted average number of shares

Operating Income by Business Segment



❑ CONSOLIDATED RESULTS

Consolidated results were in line with estimates released by the Board after its meeting on January 30, 1996.
Sales remained relatively stable at FF 135.8 billion, as volume growth was offset by the decline in the dollar-franc exchange rate.
Consolidated net income (Group share) before non-recurring items rose to FF 3.7 billion, a 9 percent increase over 1994. Combined with a slight increase in the number of shares outstanding, corresponding earnings per share rose by 8 percent to FF 15.8.
The adoption of the new accounting standards (FAS 121 and FAS 106) and the impact of restructurings, reduced 1995 net income by FF 1.5 billion. Including non-recurring items, 1995 net income was FF 2.2 billion. There were no non-recurring items affecting 1994 net income.

❑ Impact of non-recurring items on net income

US Accounting Standards FAS 121 and 106: As previously announced, TOTAL decided to adopt in 1995 the new FAS 121 as issued by the Financial Accounting Standards Board (FASB), which limits the value of assets to their market value. As a result, TOTAL recognized non-recurring, non-cash expenses related primarily to exploration and production assets (Norway, US, and Vietnam). The impact on 1995 net income was FF 0.8 billion. FAS 106, concerning medical and life insurance coverage of employees, had a negative impact of FF 0.2 billion on net income. The adoption of these new standards has no cash flow impact.
Restructurings: The decisions to sell the Ark City refinery (US), withdraw from Petrogal (Portugal), restructure the paints division, and reduce headquarters staff affected 1995 net income by FF 0.5 billion and 1995 cash flow by FF 0.2 billion.

❑ An unfavorable 1995 business environment

Changes in the main external economic factors had a negative impact on 1995 Operating Income of FF 1 billion.

External Parameters	1995	1994	Operating Income Impact
Dollar (/Franc)	4.99	5.55	FF -0.8 Bn
Brent ($/bbl)	17.06	15.90	FF +0.5 Bn
TRCV Margin ($/T)	11.4	15.4	FF -0.7 Bn

❑ Increase in operating income driven by production growth and productivity measures

The increase in operating income was driven by growth in oil and gas production as well as by productivity gains and rationalization within TOTAL.

❑ A 50-percent increase in upstream operating income

The 50-percent increase in Upstream operating income was driven by higher production volumes and cost reductions; the combination of changes in foreign exchange and oil price had a negligible impact. Oil and gas production increased by 6 percent to 674 mboe/d in 1995 from 633 mboe/d in 1994. Production outside the Middle East rose by 11 percent to 382 mboe/d, split 164 mb/d of liquids and 1,198 Mcf/d of gas. Middle East production remained stable at 292 mb/d.
This growth in production, which brings TOTAL closer to a target of 1 million boe/d by the beginning of the next decade, was accompanied by an 8 percent increase in proved reserves outside the Middle East and by stability in Middle East reserves. Total proved reserves rose to 4,168 million boe at year-end 1995 and represent more than 18 years of production based on the 674 mboe/d produced in 1995.

❑ Downstream affected by the refining crisis

Downstream results fell by 45 percent, reflecting the collapse in refinery margins in 1995, both in Europe and the US, and, to a lesser degree, the retail price war in UK marketing.
The negative impact of these elements, however, was partially offset by ongoing cost reduction measures and by better performance from value-added products, such as LPG, lubricants, aromatics etc.
TOTAL has decided to limit downstream investments only to high-return, fast-payout projects. Within this context, it is concentrating on high-growth areas, such as the Mediterranean Basin and Asia.

❑ Growth in chemicals

Chemical sales rose by 9 percent to FF 21.6 billion in 1995. This increase stems from both internal growth and acquisitions completed during the year, including in particular the 57-percent participation in Kalon.
Operating results for the Chemicals segment were stable, with growth offset by eroded margins linked to raw materials price increase.

❑ A solid financial position and a projected 25-percent increase in investments for 1996

Cash flow declined by 8 percent to FF 11,273 million. This decrease resulted primarily from weakness in the dollar-franc exchange rate.
Gross investments were reduced to FF 12.5 billion in 1995 versus FF 13.6 billion in 1994, due to the lower dollar-franc exchange rate and the decision to cut back the level of Downstream investments. Divestments totaled FF 2.3 billion in 1995.
TOTAL projects a sharp 25-percent increase in capital expenditures to FF 15.6 billion for 1996, primarily in the Upstream and Chemical segments as part of its growth strategy.
Consolidated equity, together with minority interest, rose to FF 56.2 billion at year-end 1995 as compared to FF 55.8 billion at year-end 1994. The net debt-to-equity ratio was reduced to 18 percent at year-end 1995 versus 22 percent at year-end 1994.

❑ Early 1996 activity

The operating environment in the 1996 first quarter has been characterized by a stable dollar-franc exchange rate, stronger oil prices, and by refinery margins in Europe less depressed than in 1995.
However the retail gasoline price war in the UK persists. For chemicals, margins seem to be slightly better
The level of oil and gas production is in line with projections.

❑ TOTAL SA ACCOUNTS, PROPOSED DIVIDEND AND NOMINATIONS TO THE BOARD

The net result of the parent company, TOTAL SA, was FF 3,552 million in 1995 versus FF 2,680 million in 1994.
The Board, after closing the accounts, decided to propose at the June 4 Annual General Meeting a net dividend of FF 8.7 per share versus FF 8.0 per share the previous year, which can be taken either in cash or in company shares, plus the associated tax credit of FF 4.35.
The Board will also propose the nomination of Lord Alexander of Weedon and Mr. Bertrand Jacquillat as directors for three-year terms.

1996 Calendar of Important Dividend Dates

✓ June 4, 1996
Annual General Meeting, Dividend Declaration

✓ June 10, 1996
Ex-dividend date

✓ June 10 to July 5
Period to exercise option to receive dividend in shares, based on 95% of the share price (average opening price of the 20 days prior to the AGM), less dividend

✓ From July 24, 1996
Payment of dividend in cash

TOTAL

http://www.webnet.fr/total

TOTAL - 24 Cours Michelet - 92069 Paris La Défense Cedex - France

PUTNAM INTERNATIONAL FUND
SICAV
11, rue Aldringen, L-1118 Luxembourg
R.C. Luxembourg N° B 11.197

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Shareholders will be held at the registered office of the Company on 15 April 1996 at 3.00 p.m. with the following agenda:

AGENDA

1. Presentation of the reports of the Board of Directors and of the Auditor.
2. Approval of the balance sheet and profit and loss accrual as of 31 December 1995.
3. Discharge of the Directors for the fiscal period ended 31 December 1995.
4. Re-election of Messrs John R. VERANI, Takehiko WATANABE, Thomas M. TURPIN, John C. TALANIAN, Steven SPIEGEL, Alfred F. BRAUSCH and Jean-Paul THOMAS as Directors for the ensuing year.
5. Any other business which may be properly brought before the Meeting.

The shareholders are advised that no quorum is required for the items of the agenda and that the decisions will be taken at the simple majority of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

By order of the Board of Directors

THE ROYAL BANK OF CANADA
U.S. $350,000,000 Floating Rate Debentures due 2005

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 29th March 1996 to 30th April, 1996 has been fixed at 5⅝% per annum. On 30th April, 1996 interest of U.S. $4.888888 per U.S. $1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 30th April, 1996 will be determined on 26th April, 1996.

Agent Bank and Principal Paying Agent
ROYAL BANK OF CANADA EUROPE LIMITED

Marine Midland Bank
Member HSBC Group
U.S. $125,000,000
Floating Rate Subordinated Capital Notes due 1996

For the three months 27th March, 1996 to 27th June, 1996 the Notes will carry an interest rate of 5.5625% per annum with a coupon amount of U.S. $142.15 per U.S. $10,000 Note and U.S. $710.76 per U.S. $50,000 Note. The relevant interest payment date will be 27th June, 1996.

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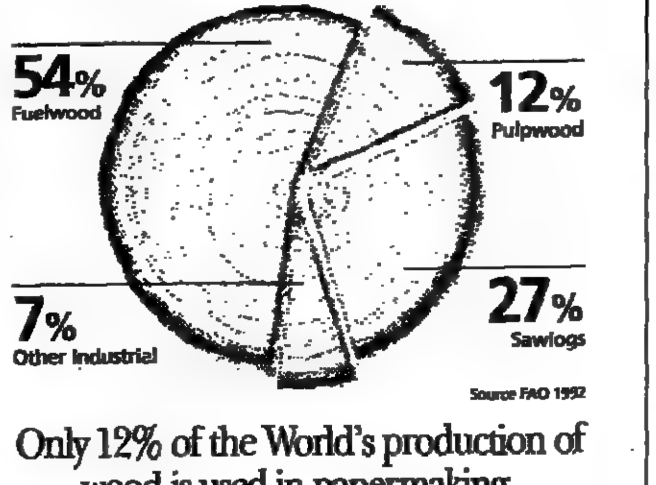

Source FAO 1992

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This announcement appears as a matter of record only.

Sony and NEC forced into reorganisations

By Michiyo Nakamoto and William Dawkins in Tokyo

The decline in world computer sales and the shift to digital technology has forced two of Japan's leading electronics companies to announce organisation changes.

NEC, Japan's leading computer manufacturer, is to split its personal computer division into three specialised units so it can react more quickly to changes in demand.

NEC, which last month agreed a complex three-way PC deal with Packard Bell of the US and Groupe Bull of France, said its PC division, representing one-fifth of group sales, would from next month be reorganised into three departments. These would handle desktops, notebooks and overseas markets.

Sales and marketing would be managed by a single division, rather than being shared between the parent company and a sales arm.

Meanwhile Sony, the consumer electronics producer, said it would devote more resources to digital technology. No job losses are planned by either group.

Mr Nobuyuki Idei, named president of Sony a year ago, said the company was creating an organisation structure to deal with the shift to digital technology – the standard for multimedia products.


Nobuyuki Idei: Sony changing to cope with digital technology

Sony has been working predominantly with conventional analogue technology. But as industries move towards digital, it faces a fundamental change that Mr Idei said "will affect our way of making products in very profound ways".

The company has identified relatively mature businesses in which it is an industry leader, such as audio-visual products, and those which promise growth, such as information technology. In the growth category, Sony is placing particular emphasis on products resulting from the merger of audio-visual and information technology functions, Mr Idei said. He cited network browsers and advanced televisions.

Sony, which recently agreed to develop PCs with Intel, the US semiconductor maker, said it was not particularly concerned about the recent slump in the US PC market.

The company, however, does not intend to produce PCs for the office or cheap, on-line PCs. Mr Idei denied speculation the company was planning a $500 machine. "It is inconceivable that the PC will enter the home in its present form," Mr Idei said. It was, however, planning to make user-friendly home PCs.

Sony also plans to focus on displays, which will be a big part of multimedia markets, personal mobile communications and PC peripherals and components.

To meet these challenges, it recently reorganised itself into 10 companies along business and product lines, with an executive organisation providing corporate cohesion. It also restructured its marketing activities to give stronger regional focus to its product based divisions.

NEC said its aim was to make development and sales more flexible in response to rapid changes in demand and shorter product life cycles. It expects its sales of personal computers to increase 25-30 per cent this year – growth which, while strong, is a dramatic slowdown compared with last year's estimated 66 per cent rise in PC sales.

NEC holds more than 50 per cent of the Japanese computer market, down from 53.7 per cent at its peak in 1992, after inroads made by US groups.

Lex, Page 14

NEWS DIGEST

TVB suffers 24% setback in profits

TVB, the Hong Kong-based broadcasting group, announced net profits of HK$485.6m (US$62.8m) in 1995, down from HK$639.1m a year earlier. It blamed the 24 per cent fall on weak consumer demand and the sluggish domestic economy in 1995. TVB said, however, it had retained its dominant position in ratings and advertising revenues in the local market, and pointed to strong overseas expansion.

TVB has developed its operations in the region, and in the US and Europe. These include cable networks in Taiwan, a recent joint venture in Thailand, and the announcement last year that it was taking a majority stake in the Chinese Channel, which broadcasts Chinese-language programmes in Europe. The company – whose largest shareholders include Shaw Brothers, the film and media group, Kerry Holdings, the media vehicle of Mr Robert Kuok, and Pearson, the UK media group which publishes the Financial Times – said it was reducing its final dividend from 85 cents to 60 cents. The interim dividend had been held at 20 cents. Turnover rose from HK$2.65bn to HK$2.73bn in 1995, while earnings per share fell from HK$1.52 to HK$1.16. *John Ridding, Hong Kong*

HK hotel group advances

Mandarin Oriental International, the hotel group controlled by Jardine Matheson, reported a 10 per cent rise in net earnings for the year to December, from US$48.8m in 1994 to $53.7m. The group benefited from a significant recovery in the Hong Kong hotel market, partly because of tighter supply.

Mandarin owns some 1,430 luxury hotel rooms on Hong Kong island. The Mandarin Oriental in Manila had a strong second half, while hotels in Bangkok, Jakarta and Macao continued to recover. Low room rates in Singapore held back the full-year result. Earnings per share rose from 7.13 cents to 7.78 cents and the total dividend is to be lifted from 5.50 cents to 5.90 cents. *Louise Lucas, Hong Kong*

Bank Leumi climbs 30%

Bank Leumi, Israel's second-largest banking group, yesterday reported a 30 per cent rise in annual net profits, from Shk315.3m in 1994 to Shk410.1m ($133m) in 1995. Fourth-quarter net profits rose 32 per cent to Shk81.7m in 1995, against Shk62m last time. The bank said rising profits resulted from increased business activity, sharply reduced losses by its New York subsidiary and improved gains from non-financial investments.

The results follow the recent decision by the Israeli government to decentralise the country's economy, which will force the bank to divest some of its main non-financial holdings over the next three years. Bank Leumi, which holds stakes in a range of Israeli companies, is negotiating to sell half its 60 per cent stake in Africa Israel, a property, tourism and insurance group. The bank must complete the sale by the end of this year. Annual provisions for bad debts jumped from Shk500m in 1994 to Shk867.2m in 1995. *Avi Machlis, Jerusalem*

Coeur d'Alene sweetens offer

Coeur d'Alene Mines, the Idaho-based mining group, yesterday lifted the cash element of its contested bid for Gasgoyne Gold Mines in Western Australia, by the equivalent of 36 cents a share, valuing the target company at about A$168m (US$129.8m). Its previous offer valued Gasgoyne at about A$135m. Coeur's new offer – comprising seven Coeur shares plus A$96 cash for every 100 Gasgoyne – is said to be worth about A$2.92 per Gasgoyne share. The US group said this was its final bid.

But Sons of Gwalia, the Australian group which is also mounting a bid for Gasgoyne, immediately claimed its all-paper offer remained superior. One of Gasgoyne's main assets is a 50 per cent interest in the Yilgarn Star mine, while SOG owns the neighbouring Marvel Loch mine. However, on last night's A$8.20 closing price for SOG shares, its one-for-three share offer falls short of the new Coeur offer price. *Nikki Tait, Sydney*

Glencore to bid for Cumnock Coal

Glencore, the Swiss-based commodity trading group, yesterday said it wanted to acquire the listed Cumnock Coal company, in which it already holds a 22.9 per cent stake, for A$2.50 a share. It indicated it would use the Australian unit as a platform for further acquisitions. Glencore has said it would instruct its brokers to stand in the market and offer to acquire the outstanding shares over a month, but Cumnock said the price was too low. *Nikki Tait*

Trafalgar House depresses result at Hongkong Land

By John Ridding in Hong Kong

Hongkong Land, the property investment arm of the Jardine Matheson group, yesterday announced net profits of US$256.9m for 1995, a fall of 30 per cent, as an improved operating result was offset by losses at Trafalgar House, the UK construction, engineering and shipping group.

Earlier this month, Hongkong Land agreed to vote its 26 per cent holding in Trafalgar in support of a takeover bid from Kvaerner of Norway. On completion of the deal, Hongkong Land will receive US$343m in cash, leading to a write-back of about $218m in the 1996 accounts.

Mr Simon Keswick, chairman, said the group's strategy was to focus on high quality property and infrastructure investments in Asia. He added that Hongkong Land expected higher net income from its property holdings this year.

In 1995, net income from properties rose from $414.8m to $465.6m, and operating profits from $395.5m in 1994 to $445m. However, the losses from its Trafalgar stake – $146.5m, compared with a profit of $20.3m the previous year – hit the net figure.

Mr Keswick said open market office rents in Hong Kong continued to decline in 1995 from the high point reached in mid-1994. By the year-end they were about 35 per cent below the previous year's peak.

However, this downturn was offset by positive rent reviews during the year, with the result that average office rents rose from $6.45 a sq ft a month in 1994 to $7.78.

Capital values, however, were hit by the soft rental market. The value of the company's investment properties in Hong Kong at the end of the year was US$7.57bn, down 17 per cent. Mr Keswick said capital values were expected to stabilise in 1996.

The group has sought to diversify into infrastructure development. In particular, it is a member of the Tsing Yi container terminal consortium which has been granted the rights to build and operate two new container berths in Hong Kong.

A diplomatic dispute between the UK and China over the project appears to have been resolved, but construction of the terminal has been delayed as the Hong Kong port operators have struggled to reach agreement on reorganising their berths.

Reflecting the group's focus on Asia, Hongkong Land announced this month that it was taking a 40 per cent stake in US$400m residential development project in the Philippines. The company said its office development project in Hanoi was letting well, after completion in October 1995.

Earnings per share fell from 13.94 cents in 1994 to 9.78 cents, but the dividend was maintained at 11.6 cents.

This announcement appears as a matter of record only — February 1996

Spölur ehf

ISK 1,788,000,000, USD 9,564,750, GBP 4,472,113, FRF 41,557,974 and DEM 18,314,097

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Dairy Farm International hit by competition

By Louise Lucas in Hong Kong

Dairy Farm International, the food retailing arm of Singapore-listed Jardine Matheson, suffered a 36.8 per cent drop in net profits last year as fierce competition took its toll on earnings. Net profits fell from US$213.8m in 1994 to $135.2m last year.

Analysts, who had criticised the company for failing to take account of changed consumer needs, had largely anticipated the sharp decline. Kleinwort Benson estimates the company is unlikely to return to the 1994 level of earnings in the next two years: for 1997, the brokerage is looking for net profits of $190m.

Net earnings were dragged down by an exceptional charge of US$36m in overstated profits in Franklins, Dairy Farm's wholly-owned Australian subsidiary – a processing error made during computer system upgrades. Net earnings in 1994, however, were lifted by a $41.8m exceptional profit on the sale of a factory site.

Stripping out the exceptional items, earnings per share dipped a more modest 5.88 per cent, from 10.56 US cents to 9.93 cents. This slimmer decline in underlying business was highlighted by Mr Gordon Crosbie-Walsh of Schroder Securities Asia.

He said the company was "very concerned about market share in places like Australia and Spain, where they have gone through major restructurings. They are also expanding aggressively, for example with 7-Elevens in China. I think they have finally got the strategy right."

Franklins returned to profit at the end of last year after a restructuring that included greater emphasis on fresh produce. Sales increased at Simago, the Spanish chain which has been loss-making since Dairy Farm acquired it in May 1990, but trading results were hampered by the cost of store revamps and a $8m provision against properties.

Last year capital expenditure rose to $247m, and a further $300m has been earmarked for 1996. Dairy Farm is upgrading its information technology, distribution and logistics systems while improving store formats, operations and product ranges.

The company is holding its annual dividend at 6 cents.

SCA

Year-end Report 1995

SCA in brief, SEK M	1995	1994
Net sales	65,317	33,676
Earnings after financial net	5,731	1,060
Net earnings after tax	3,464	555
Earnings per share after tax, SEK	17.55	2.94
Cash earnings per share, SEK	44.01	14.06
Dividend, proposed, SEK	4.75	3.75
Cash flow from operations	4,647	1,174
Strategic capital expenditures and company acquisitions	9,547	2,420
Cash flow before dividend	-3,673	504
Shareholders' equity incl minority interest	25,517	20,443
Debt/equity ratio, times	0.69	0.52
Number of employees, average	34,859	24,152

Copies of the Year-end Report are available at D.F. King (Europe) Ltd, Royex House, Aldermanbury Square, London EC2V 7HR, Great Britain. Telephone +44 171-600 5005.

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LLOYDS INTERNATIONAL LIQUIDITY SICAV
1, rue Schiller
L-2519 Luxembourg
R.C. Luxembourg No. B 29813

NOTICE

is hereby given to the Shareholders that the Annual General Meeting of Shareholders of LLOYDS INTERNATIONAL LIQUIDITY SICAV will be held at the registered office, in Luxembourg, 1 rue Schiller, on 16 April 1996 at 10.30 am with the following agenda:

1. Submission of the reports of the Board of Directors and of the Authorised Independent Auditor;
2. Approval of the annual accounts as at 31 October 1995 and allocation of the net results;
3. Discharge to the Authorised Independent Auditor for the financial period ended 31 October 1995;
4. Election of the Authorised Independent Auditor for the new financial year;
5. Acknowledgement of the resignations of Mr R.G. Keller and Mr S.Ushiyama from the Board of Directors;
6. Election of Mr M.T. Peake as a new Director;
7. To transact such other business as may properly come before the Meeting.

Resolutions on the agenda of the Annual General Meeting will require no quorum and will be passed by the majority of the votes expressed by the Shareholders present or represented at the Meeting.

By order of the Board of Directors

THE STARS PROGRAMME
STARS 1 PLC
£475,000,000 Class A Floating Rate Mortgage Backed Securities 2029

Notice is hereby given that the Rate of Interest has been fixed at 6.475% and that the interest payable on the relevant Interest Payment Date June 27, 1996 against Coupon No. 22 in respect of £10,000 nominal of the Notes will be £115.40.

March 28, 1996, London
By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

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(Incorporated in England and Wales with limited liability under Registered Number 2124201)

£200,000,000
Mortgage Backed Floating Rate Notes 2018
issued on 27th July, 1988 (the "Notes")

Notice of Early Redemption

Residential Property Securities No. 2 PLC hereby irrevocably gives notice to:

(i) Royal Exchange Trust Company Limited of 155 Bishopsgate, London EC2M 3TG, in its capacity as trustee of the Notes; and

(ii) the holders of the Notes,

that, in accordance with Condition 5(c) of the Notes, Residential Property Securities No. 2 PLC will redeem at their principal amount all of the Notes which are currently outstanding on 30th April, 1996 (the "Redemption Date"), being the next Interest Payment Date under the Notes.

Payments of principal will be made on or after the Redemption Date, against surrender of the Notes together with all unmatured Coupons and Talons, at the office of:-

S.G.Warburg & Co. Ltd.
2 Finsbury Avenue, London EC2M 2PP

or one of the other paying agents named on the Notes.

Coupon No. 31 maturing on 30th April, 1996 should be presented for payment in the usual manner in respect of the interest payment due on that day but otherwise interest will cease to accrue on the Notes from the Redemption Date. Unmatured Coupons shall become void and no payment shall be made in respect thereof.

Notes and matured Coupons will become void unless presented for payment in the case of Notes, within a period of ten years from the Redemption Date, and, in the case of matured Coupons, within a period of five years from the first due date for payment thereof.

Authorised by the Board on behalf of
RESIDENTIAL PROPERTY SECURITIES NO.2 PLC

28th March, 1996

Morgan Stanley up sharply in first term

By Maggie Urry in New York

Morgan Stanley Group continued the strong trend of earnings from US investment banks, announcing first quarter net income of $279m, compared with $187m in the previous quarter.

After changing its year-end to November, the first quarter ran to February 29. Net income in the quarter to end-January 1995 was $39m, although that was a period when Wall Street firms were still reeling from the collapse in the bond market in 1994.

The firm also said it had spent $350m buying its own shares in the quarter, after buying $103m-worth in the whole 1995 financial year. It added $150m to the amount of stock it is authorised to repurchase, taking the total to $413m. Morgan Stanley shares jumped $1⅞ to $52¾ in morning trading.

Mr Philip Duff, chief financial officer, said the stock buyback reflected a decision to be "a lot more aggressive in managing the capital structure" to put pressure on activities with a lower return on capital. "If the marginal return on the last dollar of capital is not at least equal to the cost of that capital we will return it to shareholders, largely through share repurchases".

Other Wall Street firms are also buying back large amounts of shares, in part to remove dilution caused by paying employees in shares rather than cash.

Following recent profit improvements from Goldman Sachs and Lehman Brothers, which also have financial year-ends in November, the Morgan Stanley results confirm that buoyant markets have driven profits higher from the range of securities houses' activities.

That bodes well for the other Wall Street firms which have calendar years, and are due to report their first quarter earnings later next month.

However, some analysts fear the stock market's volatility in March could adversely affect activity for investment banks.

Morgan Stanley's investment banking revenues fell from $503m in the previous three months to $399m in the February quarter. Revenues from trading jumped from $218m to $704m as clients actively adjusted portfolios following the sharp rise in the US stock market last year.

The group's asset management revenues rose from $95m in the November quarter to $122m. Mr Duff said $17m of the increase came from the acquisition in January of Miller, Anderson & Sherrerd.

Compensation costs rose from $607m in the November quarter to $705m. However, as a percentage of net revenues they fell from 52 to 49 per cent.

Fully diluted earnings per share were $1.57, against $1.03 in the previous quarter and 15 cents in the three months to January 1995. Mr Duff said the share repurchases added 6 cents to earnings per share.

Inco takes a shine to Diamond Fields

Mr Michael Sopko has recently amused colleagues at Inco's head office in Toronto by recalling his barracuda-fishing exploits when he was a geologist in Guatemala in the 1970s.

Mr Sopko, who is now the nickel producer's chairman and chief executive, has described hauling the ocean predators over the side of the boat, knocking the daylights out of them with a club, and then returning a while later to discover that the wily fish had slipped overboard.

The barracuda reminded Mr Sopko of Mr Robert Friedland, the globe-trotting mining entrepreneur whose stake in the large Voisey's Bay nickel deposit in eastern Canada could determine whether Inco retains its spot as the world's biggest producer of the silver-grey metal, the main raw material in stainless steel.

Whatever Mr Sopko may think privately of Mr Friedland, he and his fellow directors have now decided they have little choice but to court him with all the resources at their disposal.

After months of indecision, Inco this week launched a C$4.5bn (US$3.3bn) cash-and-shares bid for control of Diamond Fields Resources, the small Vancouver-based mining company headed by Mr Friedland. Diamond Fields owns 75 per cent of the Voisey's Bay deposit.

Inco's move is aimed at thwarting its arch-rival Falconbridge, which last month won Diamond Fields' support for a C$4bn deal, also comprising a combination of cash and shares.

Neither Diamond Fields nor Falconbridge, which is controlled by Noranda, the Toronto-based resources group, has responded to Inco's counter-offer. Diamond Fields said yesterday that it would review the offer and respond "accordingly".

One possibility suggested by analysts is that Falconbridge might seek an outside partner to help fund an improved bid.

A deal between Inco and Falconbridge also cannot be ruled out. Mr Sopko said yesterday that if Inco won the battle for Voisey's Bay, it might be willing to sell up to 25 per cent in the deposit to Falconbridge.

The two companies reached a tentative agreement earlier this month that would have raised Inco's stake in the project from 25 per cent to 50 per cent. But the deal was vetoed by Diamond Fields.

The battle for Diamond Fields reflects the potential of Voisey's Bay to become the lynchpin of the international nickel market. Estimates of the deposit's size have ballooned since it was discovered 18 months ago.

Inco expects Voisey's Bay to produce 270m lbs of nickel by 2000, or roughly 13 per cent of current worldwide supplies. The deposit contains sufficient quantities of copper and cobalt to cover all operating costs. In other words, nickel extraction costs would be zero at present market prices. The mine is expected to come on stream between 1998 and 2000 at a capital cost, including a smelter and refinery, of US$1.1bn.

Michael Sopko (left): rebuilding bridges with Robert Friedland

Inco bought a 25 per cent stake in Voisey's Bay and a direct 7 per cent interest in Diamond Fields in mid-1995. It has made no secret of its wish to increase its stake, but until now has been rebuffed by Mr Friedland and the Diamond Fields' board.

Mr Friedland owns about 13 per cent of Diamond Fields' shares, while 10 per cent are held by a business partner. Ironically, he also controls the votes on Inco's 7 per cent stake, as well as those on a 10 per cent interest held by Teck, a Canadian metals producer.

Inco's eagerness to secure control of Voisey's Bay has been tempered by concern among its shareholders that a bid would seriously dilute earnings or increase debt. The 51m shares to be issued would dilute earnings per share by an estimated 30 to 35 per cent over the next few years.

Inco's offer goes some way towards addressing these concerns. The company plans to buy back up to one-third of its stock over the next four years using cash flow from existing operations and possible asset sales. Mr Sopko expressed confidence yesterday that a "robust" nickel price would make this possible.

Inco is also proposing to issue a new series of convertible preferred shares, which would pay less in dividends and be less dilutive on conversion than preferreds issued last year to pay for the initial investment in Voisey's Bay. The old shares would be cancelled.

Nonetheless, Inco shares fell C$3.75 to C$43.62 early yesterday afternoon on the Toronto stock exchange. By contrast, Falconbridge's share price has hardly moved in the seven weeks since its offer for Diamond Fields was unveiled.

Inco, which has a reputation as a somewhat stuffy, slow-moving company, has also pulled out the stops to woo Diamond Fields shareholders, especially Mr Friedland.

Like Falconbridge, it has offered to create a new class of shares that would give Diamond Fields shareholders a continuing direct stake in the unfolding wealth of Voisey's Bay. Each Diamond Fields share would be exchanged for 0.35 of the new Voisey's Bay Nickel, or VBN, shares. Inco has agreed to pay dividends on these shares equal to a quarter of the mine's income, before goodwill amortisation.

Mr Sopko assured shareholders yesterday that Voisey's Bay "would be top of our priority list".

Inco also sought to rebuild bridges with the man who could help determine the outcome of the battle. "We would welcome the opportunity to have Robert Friedland join the Inco board," Mr Sopko said. He added yesterday that "we'd be very considerate of any concerns that the Diamond Fields shareholders may have".

Bernard Simon

Grupo Carso in Brazilian telecoms acquisition

By Leslie Crawford in Mexico City

Grupo Carso, the Mexican conglomerate run by Mr Carlos Slim, is poised to make its first investment outside Mexico with the acquisition of a wireless telephone company in Brazil.

The purchase will form part of Carso Telecommunications and Media, which will be created under recent proposals to spin off Grupo Carso's 12.5 per cent stake in Teléfonos de México (Telmex).

Separately, Mr Slim's financial group, Grupo Financiero Inbursa, made its first foray into investment banking with the purchase of a 40 per cent stake in Medcom, a satellite broadcasting company, and a 49 per cent shareholding in Grupo Acir, a radio network.

Mr Fernando Chico Pardo, Inbursa's chief executive officer, said: "Most small and medium-sized companies in Mexico have been hammered by the country's financial crisis. They are poorly capitalised and over-leveraged, but with the right capital structure, many of them could be viable concerns, and these are the ones we aim to help."

Inbursa has set up two venture capital funds: one with $250m culled from its own resources, and a $300m fund in partnership with Lazard Freres, which has marshalled institutional investors from Europe and the US.

The Medcom and Grupo Acir interests were acquired by Inbursa's own fund, at a cost of $45m.

The financial group is Mexico's fourth-largest measured by shareholders' equity, but its 1995 profits, at 3.2bn pesos ($424m), matched the combined earnings of Banacci and Grupo Financiero Bancomer, the two leading groups which together control about 40 per cent of the assets in the banking system.

Inbursa's three-year-old bank has the lowest level of past-due loans in the system. Its insurance, leasing and trust fund management arms have also outstripped its competitors in terms of profitability.

NEWS DIGEST

Acquisitions help lift TCI revenues

Tele-Communications Inc (TCI), the largest US cable TV operator, increased cash flow by 5 per cent to $483m in the fourth quarter, on revenues lifted 26 per cent by acquisitions to $1.9bn. There was a net loss of $79m for the quarter, compared with a $1m deficit in 1994, and a loss of $171m for the year, against a $62m profit.

In the domestic cable business, cash flow adjusted for acquisitions was up 9 per cent at $504m. Growth in customers, net of acquisitions, rose at a rate of 5.4 per cent annualised in the quarter.

Customers for basic cable at the year-end totalled 12.5m, of whom 463,000 were attributable to internal growth. In addition, TCI's recently started Primestar satellite TV service ended the year with 552,000 customers, of whom 451,000 were added during the year.

TCI said it intended to launch new services in wired telephony, digital video and high-speed Internet connections in up to three areas in the US in the course of this year. These initiatives are mainly a response to the US telecoms bill passed last month, which deregulated the cable and telephone industries.

Tony Jackson, New York

Varig falls R$6.66m into red

Varig, Brazil's biggest airline, reported a net loss of R$6.66m (US$6.95m) for 1995, down from a profit of R$208.9m in 1994. Earnings per share fell from R$3.38 to a loss of R$0.11. The downturn was due mainly to currency variations. Operating profit was R$229.1m, more than double the previous year's R$112.8m, on turnover of R$3.17bn (R$3.48bn).

Gains from borrowings in foreign currencies – mostly US dollars – were R$538.4m in 1994 but fell to R$102.3m last year. These gains resulted from the strength of the Brazilian Real following its introduction in July 1994; in 1995, the Real was gradually devalued.

During the year, hours flown increased by 6.4 per cent to 270,730; passengers carried rose 1 per cent to 9.33m; passenger-kilometres rose 0.6 per cent to 23.06bn, although a 6.2 per cent rise in domestic transport covered a 1.4 per cent fall in international transport. The best results were in cargo: tonne-kilometres increased by 9.1 per cent to 1.31bn, with international freight up by 10.1 per cent to 996m tonne-kilometres.

However, one analyst at a Brazilian investment bank said: "It is still carrying too much debt and remains very exposed to changes in the wider economic climate."

Varig has suffered from heavy debts in the past. It acknowledged in a statement to shareholders that in terms of both capitalisation and competitiveness the company is "still a long way from the desired levels".

The company appointed a new chief executive in January, its second change of leadership in nine months. Mr Fernando Pinto was brought in from the group's profitable domestic subsidiary, Rio-Sul. Analysts said his predecessor, Mr Carlos Engles, made little impact after taking over in April when the company had accumulated debts of more than US$2bn.

The company said its performance in early 1996 suffered from a series of extraordinary factors, including difficulties for Brazilians in obtaining US visas during January's shut-down of US government offices, strikes in France, and bad weather in the northern hemisphere. However, it was confident that conditions would improve in line with Brazil's growing importance in the regional and global economies.

Varig's main objective for the remainder of 1996 was to improve profitability in order to reduce debt and increase investments. This would be achieved by increasing aircraft use and improving the company's reservations system.

Jonathan Wheatley, São Paulo

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RUSSIAN 6 MONTH TREASURY BILLS (GKO)

RUR 6,034,444,000,000

Nominal value

Invested amount equivalent to.

US$ 935,000,000

Placed with International Investors

since launch of the first Euro-GKO Program on February 7, 1996 by

COMMERCIAL BANK EVROFINANCE, Moscow

Acting as authorised Primary Dealer

Arranged by

Banque Commerciale pour l'Europe du Nord - EUROBANK, Paris

Legal Advisers CLIFFORD CHANCE, Paris and Moscow

Tax Advisers COOPERS AND LYBRAND, Moscow

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Paris

COMMERCIAL BANK EVROFINANCE

Moscow

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RUSSIAN ROUBLE / US DOLLAR

FORWARD FOREIGN EXCHANGE CONTRACTS

US$ 1,036,000,000

Arranged for International Investors in connection

with their purchases of Russian Treasury Bills (GKO)

by

Banque Commerciale pour l'Europe du Nord - EUROBANK,

Paris

since launch of the first Euro GKO Program on February 7, 1996

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75^E ANNIVERSAIRE

Pilkington to take £155m charge for cuts

By Stefan Wagstyl, Industrial Editor

Pilkington, the glass making group, yesterday announced 1,900 job cuts, mainly in continental Europe and North America, in a wide-ranging restructuring which will cost £155m ($237m) in exceptional charges. The company also warned that profits for the year to the end of March would be hit by the month-long strike at General Motors, the US car-maker, which forced shutdowns at Pilkington's North American plants.

Pilkington said profits would be "marginally below current market expectations".

The shares closed down 8p at 198½p.

Mr Roger Leverton, chief executive, said the cost cuts announced yesterday were a *continuation of the restructuring* he launched when he took over in 1992.

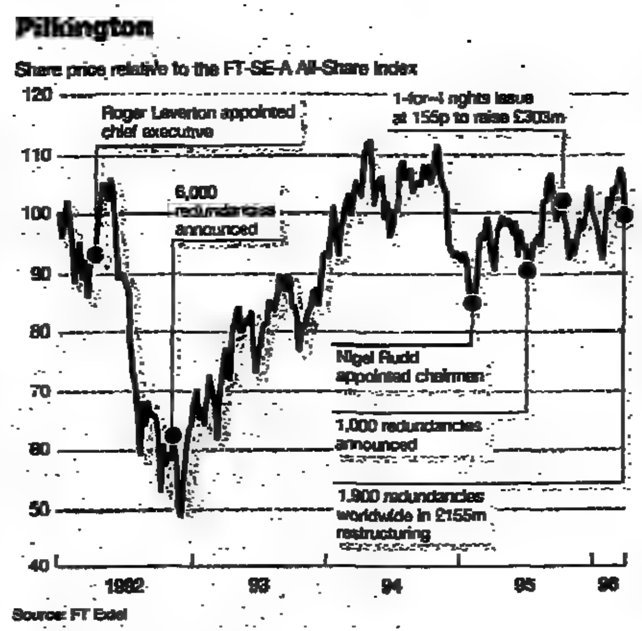
The UK operations, where the payroll has been severely cut in previous years, are expected to lose fewer than 200 jobs. The company declined to give detailed figures in advance of discussions with trade unions. However, it said that 600 of the 1,900 jobs had already gone.

Before the latest reductions, the group employed 37,000. The jobs in Europe are being cut as a result of the integration of SIV, the Italian auto glass-maker, of which Pilkington took full control in November.

The company is also reducing its German construction *glass business because of a* sharp decline in the building market. In North America, the job cuts are falling on its auto glass operations in order to concentrate output on the most efficient plants.

The programme will cost £85m in asset write-downs and £70m in redundancy payments.

The company's profits would also be hit by the severe winter in Europe, which had affected the construction industry. City analysts were yesterday paring back their profits forecasts. They now expect an increase from last year's £135m pre-tax to just over £200m, about £10m lower than previous predictions. For 1996-97, analysts expect to see about £275m rather than earlier targets of over £300m.



Source: FT Extel

Calpers to promote power for investors

By William Lewis

Calpers, the largest public pension fund in the US, will today call for institutions in the UK to set up a corporate governance institute to improve management at underperforming companies.

Mr Chuck Valdes, chairman of the investment committee at the California Public Employees' Retirement System, wants funds investing in the UK to join together and establish an organisation of institutional investors.

Mr Valdes will argue in a speech today that institutions would be able to link together through such a council to bring about change at underperforming companies.

"I want institutional investors to organise in the UK, to see if they can come together and start corporate governance activity."

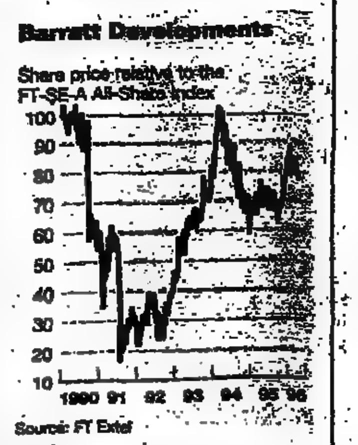
If successful, Calpers hopes for similar corporate governance institutes to be established in France and Germany, and possibly Japan. The pension fund plans so-called corporate governance programmes to improve the value of its holdings in all four markets.

In the US, the Council of Institutional Investors, which speaks for pension funds with *more than $800bn (£526bn)* under management, including Calpers, has in the last few years published a list of underperforming companies.

LEX COMMENT

Barratt Devs

The sight of another housebuilder rushing to the market with a rights issue is rather worrying. Barratt's £90m issue, announced yesterday, is to finance an increase in housing output from about 7,000 to 11,000 units by 2000. Other recent rights issues have been to finance acquisitions. The market generally prefers the latter, but there are good reasons for favouring the Barratt strategy. First, if the purpose of an acquisition is to buy land, the payment of even a small premium to net asset value is hard to justify. Second, an acquired landbank typically includes sites that the company would not have bought out of choice.



Source: FT Extel

Still, Barratt's strategy does have risks. One is that the rush for space will push land prices up at a time when house prices are expected to edge up at best.

If builders continue to chase volume, competitive pressures are unlikely to ease, despite the recent spate of disposals and asset swaps in the sector.

The real decision for investors is whether to trust the management to buy land well. Barratt's expansion plans have gone awry in the past but its recent record is good. It has outperformed peers in a difficult market, and, as yesterday's first-half results show, has managed to increase volume while maintaining margins.

History suggests that housebuilders struggle to manage volumes in excess of 10,000 units a year – which is one reason to be concerned about Wimpey, whose recent acquisition of Tarmac's housing division pushes it above that level. On that criterion, Barratt still has some way to go.

Caradon restructures in response to falling markets

By Andrew Taylor, Construction Correspondent

Pre-tax profits at Caradon, one of Britain's biggest building materials producers, fell 43 per cent last year to £114.3m ($175m) as it launched a restructuring in the face of sharply declining markets in the UK, US and Germany.

Some 1,630 jobs have been axed, or are to go, from a workforce of 26,000. About 1,000 jobs have already gone from the UK, where the group has been hit hard by the housing market decline.

Without restructuring costs of £32.1m and losses of £5.2m on disposals, pre-tax profits would have fallen 25 per cent.

Mr Peter Jansen, group chief executive, warned it was expecting difficult trading in the first half of this year but said there was some "light at *the end of the tunnel*".

The reorganisation would reduce annual costs by £50m.

US markets for windows and doors were also expected to advance following a management reorganisation and improvements to customer services. US sales exceeded those of last year for the first time in March, said Mr Jansen. There were also signs that the UK housing market was reviving which could lift sales in the second half.

However, Germany remained *a problem with radiator and* door and window sales likely to fall again with the country's housing market still in retreat.

Bullish BET fails to spark share price

By Tim Burt and Geoff Dyer

A bullish presentation to institutional investors in BET yesterday failed to ignite the share price of the business services group which is faced with a £1.8bn ($2.75bn) hostile bid from Rentokil.

Mr John Clark, BET's chief executive, in his first meeting with institutions, claimed that Rentokil's offer seriously *undervalued the group's* growth potential.

Shares in BET, however, rose by a only modest 1p to 203p compared to Rentokil's cash and paper offer of 200p.

Mr Clark said BET would deliver far greater shareholder value by remaining independent. He claimed the offer was derisory given the 28 per cent growth in pre-tax profits forecast for this year.

The 20 institutions present, which represent about 35 per cent of the group's equity base, were told BET was enjoying *strong growth in six product* areas: electronic security, textile services, education and training, plant services, leisure services, and distribution.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aeda Property	Yr to Dec 31	32.8	(27)	8.92	(8.31)	6.5	(6.7)	1.8	July 1	1.55	2.6	2.4
Aegis	Yr to Dec 31	3,401	(2,970)	33.6	(20.1♠)	2.8†	(1.6)	nil	-	nil	nil	nil
Barratt Devs	6 mths to Dec 31	277.2	(249.1)	18.1	(16.1)	8.9	(5.8)	2.75	May 24	2.5	-	7.5
Bowthorpe	Yr to Dec 31	470.4	(417.6)	77.5	(65.9)	23	(19.87)	6.5	July 1	6.29	9.5	8.25
Brake Bros	Yr to Dec 31	486.3	(402.2)	37.1	(23.5)	34.7	(29.3)	6.8	July 1	5.82	9.5	8.12
Bridport-Gundry	6 mths to Feb 3	15.1	(13.1)	0.427	(0.35)	2.73	(2.03)	1.5	May 10	1.38	-	3.5
British Fittings	Yr to Dec 31	78.3	(74.7)	3.11♥	(2.41♠)	7.25	(8.19)	2.4	May 28	2	3.8	3
Cakebread Robey	Yr to Dec 31	17.6	(17.8)	1.02♥	(0.682♠)	16.5	(11.1)	2	July 8	1	2	1
Caradon	Yr to Dec 31	2,094	(1,990)	114.3♠	(201.2)	9.2	(19.9)	6.6	June 5	6.6	9.5	9.5
Cooper (Frederick)	6 mths to Jan 31	47.7	(42.5)	1.74♠	(3.44♥)	0.8	(4.8)	0.65	July 1	0.8	-	2.7
Croda Intl	Yr to Dec 31	458.8	(423)	25.3♠	(42.8♥)	10.3	(22.9)	6.1	July 1	5.8	9.35	8.9
Crown Products Φ	6 mths to Dec 31 ☆	5.63	(2.95)	0.021	(0.276L)	0.1†	(2.3L)	-	-	-	-	-
Datrontech	Yr to Dec 31	130.2	(88.5)	6.06	(3.73)	12.6	(8.7)	2.74	May 28	-	3.86	-
Elys (Wimbledon)	Yr to Jan 31	10.3	(10)	0.588♥	(0.409)	40.2	(22.1)	30#	June 14	16	32	18
Epwin	Yr to Dec 31	68.2	(61.5)	5.08	(6.18)	15.5	(18)	6	July 8	6	8.9	8.7
EW Fact	Yr to Dec 31	10.3	(9.85)	0.869♠	(2.01)	3.71	(7.31)	0.75	June 4	2.98	0.75	y4.92
Fife Indmar	Yr to Dec 31	38.3	(33.6)	1.45	(1.02♥)	7.2	(6.18)	2.3	May 8	2.25	3.3	3
Fitch	Yr to Dec 31	16.4	(13.8)	1.53	(0.028♠)	2.8	(1L)	nil	-	nil	nil	nil
Grampian Hldgs	Yr to Dec 31	146.9	(138.1)	10.5	(8.51)	10.43	(8.73)	4.3	May 28	4.05	6.1	5.75
Graystone	6 mths to Dec 31	45.6	(22)	4.54♠	(2.98)	0.83†	(0.64)	0.21	June 21	0.18	-	0.52
Hay (Norman)	Yr to Dec 31	8.52	(7.38)	0.09	(0.27L)	0.8	(1.8L)	nil	-	nil	nil	nil
Heathcall	Yr to Dec 31	52.2	(41.2)	7.85	(6.39)	9.2†	(8.6)	3.3	May 14	3	4.95	4.5
Higgs & Hill	Yr to Dec 31	352.1	(288.2)	7.61L♠	(1.33)	11.9L†	(1.6)	1.5	June 5	1.5	2.6	2.5
Independent News ♣	Yr to Dec 29	367.9	(271.4)	50♥	(37.7♠)	25.16	(20)	6.5	June 26	6.5	10	8.5
Johnston Press	Yr to Dec 31	102.4	(95.3)	16.8♠	(14.7♠)	8.41	(7.4)	1.5	May 15	1.32	2.25	2.0075*
Kingfisher	53 wks to Feb 3	5,281	(4,888)	311.7♥	(244.2♠)	34.4	(25.9)	11.7	July 2	10.8	16.2	15.2
Monument Oil & Gas	Yr to Dec 31	25.7	(25.7)	12.2	(7.64)	1.8	(1.12)	-	-	-	-	-
Nichols (Vimto)	Yr to Dec 31	65.4	(56.3)	8.61	(9.07♥)	15.98	(15.13)	4.3	May 20	3.9	6.63	6.15
Quicks	Yr to Dec 31	328.5	(322.9)	4.59	(3.91)	12.5	(10.5)	3.75	June 7	3.25	6.25	5.5
Russell (Alex)	Yr to Dec 31	38.1	(38.2)	3.1	(3.02)	6.94	(6.78)	1.6	May 15	1.5	2.7	2.5
Rutland Trust	Yr to Dec 31	104.6	(113.1)	12.6♥	(9.33)	3.48	(2.3)	0.87	May 24	0.7	1.2	1
Sherwood Group	Yr to Dec 31	179.6	(158.1)	17.2	(15.1)	8.9	(7.9)	2.3	May 22	2.06	3.6	3.2
Silverminee	Yr to Dec 31	54	(43.6)	3.51	(2.5)	4.2	(3.69)	0.85†	July 1	0.73	1.15	0.95
Thorpe (FW)	6 mths to Dec 31	10.8	(10.4)	1.2	(1.12)	6.25	(5.94)	1.33	May 14	1.26	-	4
Tibbett & Britten	Yr to Dec 31	652.9	(464)	12.1	(28.9)	18.7	(42.8)	11.2	May 31	11.2	16.2	16.2
TLS	Yr to Dec 31	40.5	(25.4)	4.15	(1.71)	7.9†	(3.6)	1.65	May 24	1	2.7	1.5
TransTec	Yr to Dec 31	211	(185.2)	6.72	(12.4L♠)	5	(11.4L)	1.5	July 8	0.7	2.2	2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Exmoor Dual	6 mths to Feb 29	17.07	(28.58)	0.362	(0.320)	0.72	(0.64)	1.8■	May 31	2.25	-	9.05
HTR Japanese Small	6 mths to Jan 31 ★	100.2	(93.5)	0.402L	(0.38L)	0.4L	(0.38L)	-	-	-	-	nil
Murray Split	6 mths to Feb 29	225.6	(213.5⅌)	0.416	(0.331)	5.19	(4.14)	2.75	♦	2.65	-	10.85

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ☆Comparatives for 18 months to June 30. #Includes special of 14p. ♣Irish currency. *Equivalent after allowing for scrip issue. ★Comparatives restated. ⅌At August 31. ♦Already announced; makes 5.5p to date. ■Second interim; makes 3.2p to date.

Kingfisher seeks £20m cuts in DIY

By Peggy Hollinger

Kingfisher, the high street retailer, yesterday pledged to get to grips with operational problems at its ailing B&Q home improvements business as it reported a 2 per cent rise in underlying pre-tax profits for 1995.

Sir Geoffrey Mulcahy, chief executive, said Kingfisher intended to find annual cost savings of about £20m ($31m) at B&Q, which has suffered from a downturn in the DIY market and from a poor operational performance.

He admitted that Kingfisher had failed to tackle problems which had emerged over the past 12 months. "B&Q's performance, even allowing for the difficult market and overcapacity in the sector, was disappointing," he said. "In the current year we have got to see a very significant improvement in our operation of B&Q."

The group has also decided to rein in its ambitious expansion programme for the larger format Warehouse stores, opening just four this year instead of the planned nine, to reduce investment costs.

The decision to scale back Warehouse has led to much speculation that B&Q's chief executive, Mr Jim Hodkinson, would leave the company just 18 months after returning to Kingfisher from Home Depot. He was closely linked with the Warehouse format, which is aimed at both trade and retail consumers. However, yesterday, it was clear that Mr Hodkinson would remain to oversee the recovery programme.

Elsewhere, Sir Geoffrey was upbeat about the group's prospects for the current year. Like-for-like sales throughout the group were running almost 7 per cent ahead of last year. "I am confident the business is in a lot better shape that it was 12 months ago," he said.

Kingfisher delivered profit improvements at Woolworths, Comet, Darty and Superdrug. Comet, the electrical goods retailer, returned to the black with a profit of £3.1m, against last year's loss of £2m.

Darty, the French electricals chain, benefited from foreign exchange gains to show a 9 per cent increase to £112.4m.

DIGEST

Omnicom sells its stake in Aegis

Omnicom, the US marketing services giant, is selling its 13 per cent stake, worth about £50m, in Aegis, the UK-quoted media buying company.

The news came as Aegis, which has restructured in recent years after near-collapse, announced better than expected results and the prospect of its first dividend payment since 1992.

Omnicom said it was pulling out because opportunities for co-operation had failed to materialise. Aegis, through its Carat brand, is now the leader in media buying in nearly all the main European advertising markets. Last year operations started up in Switzerland, Turkey and the Baltic States and so far this year offices have been opened in Russia and Hong Kong. Mr Crispin Davis, chief executive, said the group was "looking hard" at the US. *Diane Summers*

Barratt Devs seeks £90m

Barratt Developments, the country's second largest housebuilder, yesterday launched a £90m ($138m) rights issue signalling a further acceleration in the dash to buy residential land by developers.

It is the fourth rights issue to be announced in as many months by housebuilders seeking to expand. The share issues, including the latest from Barratt, will have raised more than £280m.

The rights issue was accompanied by an upbeat assessment of the state of the UK housing market. Sir Lawrie said demand should be encouraged by lower interest rates and income tax reductions due to be triggered next month. *Andrew Taylor*

Disposal losses hit Croda

Losses on the sale of its cosmetics and toiletries business depressed pre-tax profits at Croda International, the speciality chemicals group, last year.

The pre-tax surplus contracted from £42.8m to £25.3m ($39m) after a £14.1m exceptional charge which covered the loss on the sale and an environmental provision in the US.

Mr Keith Hopkins, chief executive, said volume growth slowed in the second half, with sales to Germany and France particularly sluggish. *Motoko Rich*

This announcement appears as a matter of record only

March 1996

E D & F MAN GROUP plc

£ 120,000,000

Revolving Acceptance Credit Facility

Arrangers
Bank Austria AG, London Branch
Chase Investment Bank Limited

Senior Lead Managers
Bank Austria AG, London Branch
The Chase Manhattan Bank, N.A.

Managers
Banca Commerciale Italiana S.p.A., London Branch
Banca CRT S.p.A., London Branch
Banco Bilbao Vizcaya S.A., London Branch
Banque Indosuez
Credit Agricole, London Branch
Westdeutsche Landesbank Girozentrale, London Branch

Agent
Bank Austria AG, London Branch

Bank Austria CHASE

This announcement appears as a matter of record only.

March 1996

E D & F MAN GROUP plc

US$ 1,155,000,000

Revolving Credit Facility

Arrangers, Underwriters and Senior Lead Managers
ABN AMRO Bank N.V.
NationsBank
Société Générale
Chemical Bank
Rabobank, London Branch

Lead Managers
The Bank of Tokyo, Ltd
Bank of America NT&SA
The Norinchukin Bank
Barclays Bank PLC

Managers
The Sakura Bank, Limited
Banca Nazionale del Lavoro S.p.A., London Branch
Bayerische Vereinsbank AG, London Branch
The Dai-Ichi Kangyo Bank, Limited
The Fuji Bank, Limited
ING Bank
Midland Bank plc
The Sumitomo Bank, Limited
Westpac Banking Corporation
Banca di Roma Gruppo Cassa di Risparmio di Roma
Banque Nationale de Paris p.l.c.
The First National Bank of Chicago
The Industrial Bank of Japan Trust Company
Lloyds Bank Plc, Corporate & Institutional Banking, London
Royal Bank of Canada
SunTrust Banks, Inc.

Facility Agent
ABN AMRO Bank N.V.

US Agent (including Swingline)
NationsBank

ABN-AMRO Bank CHEMICAL NationsBank Rabobank

LLOYDS INTERNATIONAL PORTFOLIO SICAV

1, rue Schiller
L-2519 Luxembourg
R.C. Luxembourg No. B 7.635

Notice is hereby given to the Shareholders that an Extraordinary General Meeting of Shareholders of LLOYDS INTERNATIONAL PORTFOLIO SICAV will be held at the registered office in Luxembourg, 1 rue Schiller, on 16 April 1996 at 11.00 am in order to modify the Articles of Incorporation as stated in the following agenda:

1. **Deferral of redemption**

A new paragraph is added in the Article 14, after the 4th paragraph ("Shares of the capital stock of the Company redeemed by the Company shall be cancelled") as follows:

"Without prejudice to the provisions of Articles 22, if there fall to be redeemed (pursuant to requests for redemption or conversion) on any Dealing Day more than ten per cent of the number of Shares of the class concerned then in issue, the Directors may declare that certain redemptions will be deferred for a period from then until a Dealing Day (being not more than seven Dealing Days thereafter) and the Company *shall* not be bound to redeem any Shares of the class concerned before that Dealing Day. On that Dealing Day, requests for redemption or conversion which have been deferred (and not effectively withdrawn) shall be executed with priority over later requests. If a request is deferred pursuant to this paragraph, the relevant Dealing Day shall be the day on which such request is complied with and the request shall be deemed to have been received the business day preceding the Dealing Day."

2. **Change of payment value dates for subscriptions and redemptions**

The 2nd paragraph of the Article 21 is modified as follows:

"...The redemption price shall be paid not later than three business days after the date on which *the applicable net asset value was determined...*".

The last sentence of the Article 24 is modified as follows:

"The price so determined shall be payable not later than three business days after the date on which the application was accepted."

Resolutions on the agenda will require a quorum of one half of the outstanding shares and will be adopted if voted by a majority of two thirds of the shares present or represented.

By order of the Board of Directors

LLOYDS INTERNATIONAL PORTFOLIO SICAV

1, rue Schiller
L-2519 Luxembourg
R.C. Luxembourg No. B 7.635

NOTICE

is hereby given to the Shareholders that the Annual General Meeting of Shareholders of LLOYDS INTERNATIONAL PORTFOLIO SICAV will be held at the registered office, in Luxembourg, 1 rue Schiller, on 16 April 1996 at 11.30 am with the following agenda:

1. Submission of the reports of the Board of Directors and of the Authorised Independent Auditor;
2. Approval of the annual accounts as at 31 October 1995 and allocation of the net results;
3. Discharge to the Authorised Independent Auditor for the financial period ended 31 October 1995;
4. Election of the Authorised Independent Auditor for the new financial year;
5. Acknowledgement of the resignations of Mr R.G. Keller and Mr S. Ushiyama from the Board of Directors;
6. Election of Mr M.T. Peake as a new Director;
7. To transact such other business as may properly come before the Meeting.

Resolutions on the agenda of the Annual General Meeting will require no quorum and will be taken at the majority of the votes expressed by the Shareholders present or represented at the Meeting.

By order of the Board of Directors

Gold market firm as Belgium sells more

By Kenneth Gooding, Mining Correspondent

Belgium's central bank yesterday revealed that it had sold 203 tonnes of gold, its fourth big disposal of the precious metal from its reserves in seven years.

Previous announcements had a depressing effect on the gold price but yesterday the market took the news in its stride and gold remained above the psychologically-important $400 a troy ounce level to close in London down 10 cents at $400.10. That was because partly the bank indicated that the gold had gone to another central bank, which meant it was not overhanging the market. When it disclosed the sale of 175 tonnes of gold in April last year, Belgium left unanswered questions about its destination and this caused the market some concern for several weeks.

Belgium previously revealed the sale of 127 tonnes of gold in March 1989 and a further 202 tonnes in June 1992. The latest disposal leaves about 600 tonnes in its reserves. The bank gave its usual explanation yesterday and said the sale was to reduce the share of gold in its total reserves to "a level that will facilitate the participation of the bank in the process of European unification and which corresponds to the proportion of gold in the total reserves of the member states of the European Union".

Ms Rhona O'Connell, analyst at stockbroker T Hoare & Co, suggested it was not easy to believe this explanation and "it was more likely to have been a distress sale". Even if Belgium's reasoning was taken at face value, it meant the bank was chasing a constantly moving target at a time when there were serious doubts being raised about the process of European monetary union. It was not clear yet what role gold might play in the reserves of a European central bank.

It was helpful that Belgium had said the gold had gone to another central bank – even if it refused to identify the counterparty – because this meant there was no impact on the physical market and there should be no impact on the gold price, she added.

Mr Andy Smith, analyst at Union Bank of Switzerland, said the news was "whatever you want it to be – bullish or bearish. The impact will depend on the mood of the market, and that mood tends to be bullish at present. It might take until after the Easter holiday for the full effect to be felt."

Mr Smith pointed out that this was another example of how central banks were becoming increasingly sophisticated in managing their gold reserves.

It was not clear what price Belgium received for its gold. It reported that its foreign exchange reserves had increased by BFr65.54bn to BFr379.64bn (US$12.5bn). Mr Smith said that indicated that it might have been paid between $400 and $430 an ounce.

Among other central banks, Canada has regularly disposed of some of its gold reserves and in January 1993 the central bank of the Netherlands announced it had sold 400 tonnes.

Oil's bull run falters as London traders take stock

By Robert Corzine

Oil prices eased somewhat in late London trading yesterday as traders and analysts took stock of the two week-old bull run in the markets.

The price of the benchmark Brent Blend for May delivery was $19.80 a barrel, about 15 cents below its close on Tuesday.

Few analysts were willing to predict the next direction for the rally, which has taken many by surprise.

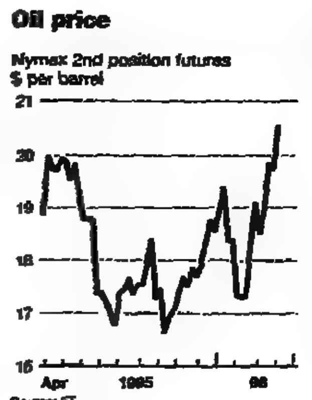
Some traders said they had detected an increasing availability of some short-term crudes. That, they said, suggested some easing in the recent heavy buying pressure on supplies for early delivery.

But others noted that aggressive buyers remained active in the market, including big oil companies.

There have also been suggestions that heavy buying by US-based commodity hedge funds over the past week or so was supporting the market, adding at least a dollar to the oil price.

Oil price

Nymex 2nd position futures
$ per barrel



Source: FT

That view was not universally shared, however, with some traders claiming that the hedge funds were among those investors who had missed the decisive moves in the price run-up.

"The majority missed the latest move entirely," said one London trader yesterday, although the funds that monitor technical trends should have benefitted from the price rise.

Many investors have been taken aback by the speed with which the rally materialised. The price of West Texas Intermediate, the US benchmark crude, has risen by about $3.50 a barrel since March 11, when the latest leg of the rally began.

Unlike other oil price rallies in recent years, this one was not triggered by a supply disruption from a major producing area. Low oil stocks combined with revised estimates of demand in key consuming countries have been the main forces behind the rally.

Prices have also been boosted by the perception that Iraqi oil may not return as early as some market participants had expected.

Traders said short-term prices could be supported as stocks are rebuilt in coming months by refiners.

They warn, however, that the markets may have to wait for the next round of talks on April 8 between Iraqi and United Nations negotiators on an oil-for-food deal for a firmer direction.

Russia seen shipping less primary aluminium but more products

By Kenneth Gooding

Exports of primary aluminium from Russia, which jumped from 135,500 tonnes in 1990 to 2.3m tonnes in 1994, will fall again over the next few years and stabilise at about 1.9m tonnes a year, according to the Metal Bulletin Research consultancy. However, exports of some forms of processed aluminium are likely to show a substantial increase, suggests Mr Raju Daswani, author of a profile of the Russian aluminium industry.

He points out that in the first half of last year Russian production of aluminium rolled stock increased by about 47 per cent to 189,000 tonnes. This was because of "long tolling", a system that requires foreign companies wishing to have permission to produce primary aluminium using imported raw materials to deliver no less than 20 per cent of the volume to Russian rolling mills for further processing.

Consequently, if the political situation in Russia remains fairly stable, MBR expects Russian domestic consumption of aluminium to rise by 7 to 12 per cent this year, driven by a 25 to 30 per cent increase in exports of "long tolled" rolled products and aluminium stampings. Consumption should also be helped by a rise in domestic demand for aluminium sheet, particularly foil, for the food industry.

Nevertheless, the Russian semi-fabricating industry remains in crisis following a catastrophic fall of 90 to 95 per cent in defence orders. Until 1991 this sector accounted for more than 50 per cent of consumption of aluminium products. There was also a 60 to 75 per cent fall in demand from non-defence industries.

A profile of the Russian Aluminium Industry, £950 or US$1,650 from MBR, 16 Lower Marsh, London SE1 7RJ, UK.

Kaolin area up

By Robert Gibbens in Montreal

Nova Scotia's deposits of kaolin clays are much more extensive than thought.

Deposits identified by recent drilling cover 62 sq km up from 8 sq km estimated recently, according to government geologists. Canada does not yet mine any kaolin.

RTZ economist forecasts general easing in country's metals and minerals exports

By Kenneth Gooding

Exports of metals and minerals from Russia are more likely to ease back than to continue growing, says Mr Phillip Crowson, chief economist at RTZ/CRA, the world's biggest mining company.

"Their maintenance at recent levels, let alone their expansion, will require sizeable investment in modernisation and the elimination of bottle-necks for existing operations, plus the development of new mines. Above all, it will require heavy spending on transport," he writes in the group's Review publication.

Rising transport charges are wiping out Russia's inherent cost competitiveness in aluminium production, he adds. Trade will continue, nevertheless, because aluminium still has a strong comparative advantage against other potential Russian exports.

Mr Crowson says: "Just as aluminium production, now mainly for export, is perhaps the only effective means of marketing Russian hydro-electric power, so exports of coke, pig iron and steel provide a similar function for domestic coal, iron ore and manganese. No matter how relatively inefficient Russian plants might be, the capital costs have been sunk and the resources employed have no alternative economic use".

He argues that the use of anti-dumping or countervailing duties to stop the flow of Russian steel to the west is "inappropriate." Instead, a broad framework for Russian access to western markets should be negotiated.

Tax blow hits Zimbabwe tobacco trade

By Tony Hawkins in Harare

A month before the start of the 1996 flue-cured tobacco auction sales, the Zimbabwe ministry of finance has imposed a 5 per cent turnover tax on tobacco sold on the floors.

The Zimbabwe Tobacco Association, which represents growers, has lobbied vigorously, but unsuccessfully, against the tax warning that it will deter future output and export growth and will impinge heavily on small-scale black growers of both burley and virginia flue-cured leaf.

On the assumption that a flue-cured crop of around 205m kg is harvested this year, selling at an average price of at least US$2.30 a kg, the tax will yield some US$23m, or over Z$220m, from flue-cured leaf sales alone.

The tax, which has been imposed strictly for revenue reasons, sets an unfortunate precedent. It is the first overt export tax to be imposed in Zimbabwe and will not be deductible for income tax purposes.

A study undertaken for the ZTA concludes that the hardest hit by the tax will be those growers with yields below the national average of 2,500kg a hectare.

Growers who obtain yields of less than 2,000kg a hectare or whose poor quality leaf results in low prices on the auction floors, could be wiped out altogether, the study claims. For growers who are achieving above-average yields the tax will amount to a reduction of between 8 and 12 per cent in their net returns, after accounting for fixed and variable production costs.

The Malawi Tobacco Association has revealed that following the imposition of a similar 5 per cent tax in that country last year, average prices fell 17 per cent, despite a general improvement in world prices last year.

The Malawi association says the government in Lilongwe concedes that the tax discourages exports and is looking for alternative sources of revenue.

Major buyers have also warned that the tax will lead to Zimbabwean tobacco becoming less competitive. The Philip Morris group, probably the largest single buyer of Zimbabwean leaf, has warned that the tobacco levy will have damaging effects in the long term as well as in the immediate futures.

The tax has come too late to influence the production levels that will be reached this year as the 1996 crop is already being reaped and prepared for sale next month, but it could affect plantings for next season's crop.

The tax is the latest of three potentially serious blows that have been inflicted on the industry.

During the recent presidential election campaign President Robert Mugabe repeatedly revived threats of expropriation of white-owned farmland, while the tobacco marketing industry has been thrown into disarray by the activities of "indigenous" merchants.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1645.5-46.5	1676-77
Previous	1640.5-41.5	1672-73
High/low	1647/1646	1682/1671
AM Official	1646.5-47.5	1677-77.5
Kerb close		1671-72
Open int.	220,432	
Total daily turnover	48,810	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1387-92	1427-30
Previous	1388-95	1423-30
High/low		1435/1422
AM Official	1382-83	1422-23
Kerb close		1425-30
Open int.	6,958	
Total daily turnover	1,438	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	804-6	787.5-88.5
Previous	818-23	798-99
High/low		802/780
AM Official	808-10	792-94
Kerb close		786-87
Open int.	38,825	
Total daily turnover	8,350	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8350-60	8430-35
Previous	8260-70	8365-70
High/low	8360	8520/8410
AM Official	8385-90	8460-65
Kerb close		8400-10
Open int.	41,888	
Total daily turnover	10,278	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6450-60	6460-70
Previous	6470-80	6475-80
High/low		6500/6430
AM Official	6476-80	6485-90
Kerb close		6430-35
Open int.	17,302	
Total daily turnover	4,994	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1064-66	1087.5-89.5
Previous	1063.5-64.5	1088-89
High/low	1067	1093/1088
AM Official	1066.5-67.5	1091.5-92.0
Kerb close		1088-89
Open int.	72,402	
Total daily turnover	8,510	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2534-36	2523-24
Previous	2524-26	2513-14
High/low	2528/2527	2531/2516
AM Official	2527-28	2521-21.5
Kerb close		2520-21
Open int.	177,528	
Total daily turnover	67,866	

■ LME AM Official £/$ rate: 1.5214
LME Closing £/$ rate: 1.5185

Spot: 1.5185 3 mths: 1.5162 6 mths: 1.5140 9 mths: 1.5115

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	116.25	-0.95	116.90	116.00	758	799
Apr	115.85	-0.75	116.40	115.90	202	3,081
May	115.60	-0.60	116.35	115.30	7,276	21,329
Jun	114.65	-0.65	114.50	114.50	27	872
Jul	114.00	-0.30	114.50	113.80	528	5,802
Sep	112.40	-0.30	112.70	112.40	461	3,152
Total					8,532	44,125

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	399.90-403.30		
Opening	400.00-400.40		
Morning fix	400.00	262.864	478.400
Afternoon fix	400.35	263.475	479.619
Day's High	400.50-400.90		
Day's Low	399.60-400.00		
Previous close	400.00-400.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.81	6 months	3.77
2 months	3.80	12 months	3.63
3 months	3.79		

Silver Fix	p/troy oz.	US cts equiv.
Spot	373.65	568.75
3 months	377.80	573.80
6 months	382.75	580.45
1 year	392.10	592.55

Gold Coins	$ price	£ equiv.
Krugerrand	398-401	262-264
Maple Leaf	411.15-413.75	
New Sovereign	94-97	62-64

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

[illegible]

■ CRB Futures (Base: 1967=100)

[illegible]

■ GSCI Spot (Base: 1970=100)

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	68.350	-2.000	70.100	68.400	48	80
May	67.925	-0.625	68.600	67.300	1,685	6,503
Jul	66.625	-0.525	67.400	66.400	428	2,900
Aug	63.625	-0.275	64.250	63.300	158	864
Feb	62.425	+0.825	62.600	62.250	15	128
Mar	62.100	+0.975	62.400	-	2	8
Total					2,325	10,482

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Apr	Jun	Apr	Jun
1500	148	-	-	-
1600	49	86	1	21
1700	[illegible]	[illegible]	52	66
■ COPPER (Grade A) LME	**Apr**	**Jun**	**Apr**	**Jun**
2400	133	141	3	18
2500	41	74	6	50
2600	3	32	65	107
■ COFFEE LCE	**May**	**Jul**	**May**	**Jul**
1850	124	156	30	124
1900	91	134	47	150
1950	65	115	71	181
■ COCOA LCE	**May**	**Jul**	**May**	**Jul**
875	64	95	1	9
900	42	76	4	15
925	24	59	11	23
■ BRENT CRUDE IPE	**May**	**Jun**	**May**	**Jun**
1850	-	-	-	71
1900	107	67	22	94
1950	72	51	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.56-7.62x	+0.045
Brent Blend (dated)	$21.24-1.30	-0.360
Brent Blend (May)	$19.82-9.84	-0.125
W.T.I.	$21.98-2.02x	-0.175

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$209-211	
Gas Oil	$208-210	+1
Heavy Fuel Oil	$102-104	-1
Naphtha	$184-186	+2
Jet fuel	$232-234	-2
Diesel	$210-212	+3

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$402.10	-0.10
Silver (per troy oz)♣	567.50c	-2.00
Platinum (per troy oz.)	$415.00	+1.00
Palladium (per troy oz.)	$141.00	+0.25
Copper	123.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	16.00r	+0.12
Tin (New York)	303.5	-1.00
Cattle (live weight)†	96.69p	-22.43*
Sheep (live weight)†♠	153.46p	+0.19*
Pigs (live weight)†	136.36p	+29.30*
Lon. day sugar (raw)	$312.9	
Lon. day sugar (wte)	$401.5	+0.5
Barley (Eng. feed)	113.25	
Maize (US No3 Yellow)	146.5z	
Wheat (US Dark North)	Unq.	
Rubber (Apr)♥	103.25p	
Rubber (May)♥	103.25p	
Rubber (KL RSS No1)	384.50m	
Coconut Oil (Phil)§	$725.0v	-12.5
Palm Oil (Malay.)§	$525.0z	
Copra (Phil)§	470.0	-4.0
Soyabeans (US)	208.0v	
Cotton Outlook'A' index	82.80	-0.75
Wooltops (64s Super)	442p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Mar. y Apr. v Apr/May. † Apr/Jun. ▼ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week. † Prices are for previous week.

JOTTER PAD

CROSSWORD

No.9,030 Set by GRIFFIN

Clues 1,8,9 and 28 have no definitions but can be taken to hand

ACROSS
1 Uniform belonging to an entertainer in a ship (5,2,5)
10 Encourage popular church feature (7)
11 For a joke spread glue round someone's trunks? (7)
12 Pull the man a half love (5)
13 Student of taste bothered about vocal production (8)
15 In upper school, certainly having done too much? (10)
16 Poke quiet angler (4)
18 Rescue broken vase (4)
20 Volunteers managed to identify a dance (10)
22 Union expert takes back bad article (8)
24 State after one had rejected love (5)
26 Former A-bomb test (7)
27 Fell over child's toy; planned to have woman dismissed (7)
28 Her Ian's often drunk (4,2,6)

DOWN
2 Anne's destroyed the soldiers' trap (7)
3 When balanced by engineer I'd accepted proof (8)
4 Could be one protecting ten animals (4)
5 Security firm all confused after intervening (10)
6 Waves topless, causing strong desires! (5)
7 Lacking help said milliner needed break (7)
8 Noisily ate from passed mixture (3,2,6)
9 Often poor girl goes up and nods off (3,2,8)
14 Old Indian supplier firm with man caught taking idol (10)
17 Where you'll find a hot pie I cooked (8)
19 House burning is criminal! (7)
21 A fellow in the local allowed a brochure (7)
23 Anne half accepts story of foreigner (5)
25 No black dog needs scratching? (4)

Solution 9,029

S	T	A	P	L	E		B	R	A	N	D	I	S	H
R	E	P	E	N	T	I	N	G		R	I	S	E	N
E	A	R	N		C	A	T	T	L	E	P	E	N	S
N	O	T	A	B	L	E		A	N	Y	W	A	Y	
A	B	S	E	S	S		R	E	A	L	I	S	E	S
A	D	O	L	E	S	C	E	N	T		S	T	E	T
S	T	E	A	M		L	O	O	K	A	F	T	E	R
C	L	E	A	N	E	R	S		C	A	R	E	S	S

INTERNATIONAL CAPITAL MARKETS

UK gilts lose post-auction gains

By Antonia Sharpe in London and Lisa Bransten in New York

UK gilts failed to hold on to the gains made on the back of yesterday's successful £3bn auction of five-year stock. The auction was covered 2.64 times, above expectations, but the yield tail of four basis points suggested the bids had been somewhat speculative.

On Liffe, the June long gilt future rose as high as 105¼ but by the late afternoon it was down ⅛ at 104¾ in volume of about 56,327 contracts.

The market was broadly content with the government's funding remit for the 1996–97 year announced yesterday because it continued the reforms of recent years. In particular, plans to introduce dual auctions were welcomed.

However, some analysts were disappointed that the government had decided not to introduce index-linked auctions this year.

"Index-linked auctions are still on the agenda but probably won't be brought in until next year," said Mr Simon Briscoe, UK economist at Nikko Europe.

Mr Briscoe was also concerned that the government's decision to issue stock across the yield curve in the new financial year would cause a steepening in the yield curve.

In his view, the government should have minimised the impact on the curve of the £11.6bn of redemptions by issuing a larger amount of short-dated or index-linked gilts.

Currently, the differential between five-year and 20-year gilts stands at about 90 basis points but Mr Briscoe expected it to widen in coming weeks.

Ms Katy Peters, senior economist at Daiwa, said that while next year's gross gilt sales of £32.6bn were only slightly above expectations of £30bn, the number had focused the market's mind on the large amount of stock it would need to absorb during a year of increasing political pressure.

GOVERNMENT BONDS

■ In continental Europe, activity was mainly in the high-yielding markets while caution ahead of today's Bundesbank meeting restricted trading in the German government bond market. Traders believe there is a 20 per cent chance that the Bundesbank will cut official interest rates today.

On Liffe, the June bund future was little changed at 96.48. Mr Graham McDevitt, senior bond strategist at Paribas, said the market had identified 96.75 as the upper resistance level for the near term.

He added, however, that the recent underperformance of five-year paper had caused some flattening in Germany's steep yield curve. The differential between five-year and 10-year paper narrowed by 2 basis points to 126 points.

■ Of the high-yielders, the Italian market was the most volatile. Nervousness about the lira and the health of Banco di Napoli, the troubled Neapolitan bank, caused June Italian government bond futures to fall as low as 107.72 before recovering to 108.32, up 0.39, in the afternoon.

The yield spread over Germany widened to 451 basis points but some bargain-hunting brought the spread back in to about 442 points by late afternoon.

■ The US Treasury market retained its bearish tone, despite weaker than expected figures on industrial production.

Near midday, the benchmark 30-year Treasury was ⅛ lower at 92¾ to yield 6.602 per cent and the two-year note was down ⅛ at 98⅞, yielding 5.732 per cent.

Bonds rose briefly in early morning trading after the Commerce Department said durable goods orders fell 2.5 per cent in February, led by a sharp drop in aircraft orders. Most economists had estimated that February orders would be flat.

Later in the session, bonds fell from their highs in part because details of the report indicated the economy was not as weak as the overall figure suggested.

Orders for non-defence capital good excluding aircraft rose 3.7 per cent last month and Mr Joseph Liro of CIBC Wood Gundy said the market viewed the decline in durable goods orders as confined to the aircraft sector, which has seen sharp growth in earlier months.

Also weighing on the market was a second day of testimony from Mr Alan Greenspan, chairman of the Federal Reserve, who was nominated to a third term and is in the midst of the Congressional approval process.

Mr Greenspan worried the market when he told a House panel that he did not see a long-term trend in the recent phenomenon of steady wages, despite soaring corporate profits. He said that "at some point . . . wages will start to rise again at a pace which would be consistent with profit margins declining" and added that "it indeed may already be occuring".

Hungary to press for investment grade rating

By Richard Lapper

The Hungarian government, which this week will be formally invited to join the Organisation for Economic Co-operation and Development, is to press its case for an investment grade credit rating from international agencies.

Mr György Surányi, president of the National Bank of Hungary, said market perceptions of Hungary's improved economic performance were already reflected in tighter spreads on its bonds trading in the secondary market.

In London to speak to investors, Mr Surányi said he was confident Hungary's ratings from both Standard & Poor's and Moody's could be upgraded. Its current ratings of BB+ and Ba1 are the highest non-investment grades awarded by either agency.

The Czech Republic already enjoys investment grade ratings from two agencies, while Slovakia and Poland are rated investment grade by Moody's. In January S&P revised its outlook on Hungary from negative to stable. Hungary already has an investment grade rating from the Japanese Credit Rating Agency.

Hungarian bonds have recently traded at between 150 and 170 basis points over the international government bonds against which they are priced, compared with launch spreads of 250 basis points, and Mr Surányi is expecting this to be reflected in pricing when Hungary returns to the market later this year.

He said a global eurobond issue under consideration was needed to establish a new benchmark. Net external debt stood at $16.8bn at the end of 1995. This year the government plans to pre-pay at least $1.5bn, reducing overall debt to about $15bn.

Rabobank Nederland taps eurolira sector for L150bn

By Samer Iskandar

Primary market activity was on hold yesterday, as most underlying government bonds traded quietly in anticipation of today's fortnightly meeting of the Bundesbank's council.

Italy was one of the most volatile markets, but that did not deter Rabobank Nederland from tapping the eurolira sector for L150bn with a three-year callable deal.

The paper was placed easily, said Credito Italiano, joint lead manager. Retail investors, usually reluctant to buy callable paper, seem to have found compensation in the 10.10 per cent coupon, the highest in lira this year.

Credito Italiano expects similar deals in the near future, and an increase in the amount of Rabobank's issue cannot be ruled out. The "defensive" structure, with a yield to call 50 basis points higher than that on one-year government paper, appeals to investors fearing volatility.

The European Investment Bank seized a swap opportunity from fixed into floating-rate pesetas to issue a two-tranche Pta13bn structured deal. The 10-year tranche, whose coupon is stepped-up after the third year if the issuer's call option is not exercised, was mainly pre-placed with institutional investors.

The five-year tranche's redemption price is linked to Mibor money-market rates. Its structure was devised to fit the specific needs of a handful of Spanish investment portfolios.

INTERNATIONAL BONDS

Cetelem, the consumer loans arm of Compagnie Bancaire, tapped the French domestic market for FFr2bn. The maturity was set at 12 years, where demand by insurance companies is still strong, making the issue an attractive alternative to KfW's recent eurofranc deal.

Cetelem offers a spread over OATs of 27 basis points with a rating of Aa3, while AAA rated KfW pays only 7 basis points over OATs. Syndicate managers reported very weak demand from non-residents, who have been avoiding the French franc market lately.

Swedish Export Credit tapped an existing euro-MTN programme for $200m, via lead manager UBS. The two-year deal offers a spread of 5 basis points over Treasuries.

The Kingdom of Sweden, whose AA– foreign long-term rating was affirmed yesterday by the European rating agency IBCA, issued A$100m of 8⅝ per cent five-year paper. ABN-Amro Hoare Govett was lead manager.

Romania, after obtaining four ratings from international credit rating agencies earlier this month, announced plans to raise up to the equivalent of $600m in the eurobond and Samurai markets.

Mr Daniel Daianu, chief economist of the central bank, said he expects the Samurai issue to be larger than the eurobond, because he believes the Samurai sector will be easier to access. Both deals are scheduled for early in the second half of this year.

Israel has declared its intention to start tapping the eurobond market. Up to $200m should be raised this year, part of a programme that could reach $750m in coming years.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Shinhan Bank‡	200	(a)	99.89R	Mar 1999	0.10R	-	Merrill Lynch/SBC Warburg
Swedish Export Credit	200	5.75	99.848R	Apr 1998	0.125R	+5(5⅝%-98)	UBS
Banpu(b)§	*100*	*2.75*	*100.00*	*Apr 2003*	*2.50*	-	*JP Morgan Securities*
D-MARKS							
DSL Finance(a)	500	5.375	99.70R	Apr 2001	0.25R	+35(6¾%-00)	CSFB/SBC Warburg
YEN							
Bacob Overseas+	10bn	1.00	92.85	Apr 2001	0.25	-	Nikko Europe
LUXEMBOURG FRANCS							
Commerzbank(e)	2.5bn	5.625	102.375	Dec 2000	1.75	-	BGL/Kredietbank
ITALIAN LIRE							
Rabobank Nederland(c)	150bn	10.10	101.255	Apr 1999	1.375	-	C.Italiano/San Paolo, Turin
AUSTRALIAN DOLLARS							
Kingdom of Sweden	100	8.625	101.463	May 2001	2.00	-	ABN Amro Hoare Govett
PESETAS							
European Investment Bank(d)	7bn	(d1)	99.95	Apr 2006	undisc	-	Bco Santander de Negocios
European Investment Bank(e)	6bn	7.50	111.5839	Jun 2001	undisc	-	Bco Santander de Negocios

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. +Unlisted. §Convertible. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 6-mth Libor +25bp. b) Conversion price: Bt720. FX: Bt25.25/$. Callable, subject to 140% hurdle, from 10/4/99 at accreted value. Redemption price: 141.80%. c) Callable on 28/4/97 & 98 at par. d) Callable annually from 15/4/99 at par. d1) 9.3% to 15/4/98, and 9.5%, 10.1%, 11.2%, 10.8%, 11%, 11% & 10.3% for subsequent years. e) Short 1st & last coupons. Redemption price linked to Mibor. s) Short 1st coupon

Bundesbank eases short-term issue stance

By Andrew Fisher in Frankfurt

Bundesbank hints of a more relaxed attitude towards the government issue of short-term paper were welcomed in the German capital market yesterday.

After the central bank had rejected the idea of government issues of less than one year, Mr Johann Wilhelm Gaddum, its deputy president, this week held out an olive branch to those urging the move.

Although he gave no details or indications of timing, he agreed that European monetary union altered the situation. "We shall have to see how we react to this development."

The Bundesbank has so far objected to government paper with a life of less than a year on money supply grounds. The government has a budget provision for DM50bn of short-term paper but has not issued any because of the bank's objections. Mr Gaddum said the volume of such paper would have to satisfy the capital market without upsetting monetary policy.

Those pressing the Bundesbank to drop its misgivings point to the planned introduction of the euro as the single currency. After Emu, countries with short-term paper, such as France, would have Treasury bills denominated in euros, while there would be no comparable German paper.

This point was made by Mr Ernst Welteke, president of the central bank for the state of Hesse (which contains Frankfurt) in November. He said the Bundesbank council, of which he is a member, should drop its opposition to short-term debt before ahead Emu, which is planned for 1999, to help strengthen Frankfurt's role as a financial centre.

UBS reacted yesterday to Mr Gaddum's comments, which also included the prospect of two-year quoted government debt, by saying he "offered some nice surprises for the German bond market".

After its past objections, UBS said, "the Bundesbank now seems to be willing to improve the competitiveness of the Bund market".

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.6770	+0.070	[illegible]	8.94	8.30
Austria		6.125	02/06	97.4600	+0.060	6.48	6.57	6.56
Belgium		7.000	05/06	101.5900	+0.130	6.77	6.83	6.79
Canada *		8.750	12/05	108.1700	+0.330	7.54	7.57	7.38
Denmark		8.000	03/06	103.4600	+0.240	7.49	7.61	7.50
France	BTAN	5.750	03/01	100.0000	+0.250	5.74	5.94	5.63
	OAT	7.250	04/06	104.7500	+0.310	[illegible]	6.73	6.72
Germany Bund		6.000	02/06	97.1800	+0.110	6.39	6.49	6.34
Ireland		8.000	08/06	99.7500	-0.040	[illegible]	7.98	7.76
Italy		9.500	02/06	93.6000	+0.240	10.56†	10.39	10.73
Japan	No 129	6.400	03/00	118.8160	+0.420	1.85	1.88	1.99
	No 182	3.000	09/05	98.6190	+0.500	3.19	3.21	3.05
Netherlands		6.000	01/06	96.9400	-0.040	[illegible]	6.62	6.36
Portugal		11.875	02/05	114.0200	+0.520	9.46	9.55	9.49
Spain		10.150	01/06	102.9300	+0.440	9.63	9.84	[illegible]
Sweden		6.000	02/05	85.1720	+0.330	8.44	8.66	8.11
UK Gilts		8.000	12/00	101–31	-3/32	7.49	7.38	7.08
		7.500	12/06	95–15	-2/32	8.13	8.06	7.85
		9.000	10/08	105–25	-2/32	8.25	8.18	8.00
US Treasury *		5.625	02/06	95–14	+3/32	6.25	6.26	[illegible]
		6.000	02/26	92–09	+5/32	6.59	6.62	6.20
ECU (French Govt)		7.500	04/05	102.8800	-0.340	7.09	7.35	7.18

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.25	Two year	5.73
Prime rate	8¼	Two month	5.19	Three year	5.86
Broker loan rate	7	Three month	5.16	Five year	6.04
Fed funds	5 5/16	Six month	5.18	10-year	6.28
Fed funds at intervention	-	One year	5.40	30-year	6.60

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

[illegible]

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100%

[illegible]

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
9650	0.65	0.95	0.75	1.08	0.64	0.94	1.61	[illegible]
9700	0.40	0.70	[illegible]	[illegible]	0.89	1.19	1.94	2.19
9750	0.23	0.49	0.44	0.66	1.22	1.48	2.30	2.52

Est. vol. total, Calls 9571 Puts 11895. Previous day's open int., Calls 218905 Puts 159091

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.30	108.32	+0.38	108.50	107.72	45503	51186
Sep		107.78	+0.39			-	258

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
10800	1.85	2.69	[illegible]	2.75
10850	1.58	[illegible]	1.76	3.02
10900	1.33	2.08	2.01	3.30

Est. vol. total, Calls 4837 Puts 5410. Previous day's open int., Calls 58049 Puts 70860

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.60	95.81	+0.49	96.00	95.57	62,644	40,877

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		105-29	+0-02			-	2399
Jun	105-02	104-27	-0-01	105-08	104-21	56798	110983

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
[illegible]								

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

[illegible]

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Mar 27	Day's change %	Tue Mar 26	Accrued interest	xd adj. ytd		Low coupon yield Mar 27	Low Mar 26	Low Yr. ago	Medium coupon yield Mar 27	Medium Mar 26	Medium Yr. ago	High coupon yield Mar 27	High Mar 26	High Yr. ago
1 Up to 5 years (24)	121.25	+0.05	121.19	1.93	2.43	5 yrs	7.57	7.57	8.49	7.80	7.81	8.83	7.70	7.71	8.67
2 5-15 years (19)	145.31	+0.03	145.39	3.10	1.82	15 yrs	8.29	8.29	8.47	8.31	[illegible]	8.66	8.42	8.42	8.75
3 Over 15 years (9)	157.89	+0.03	157.84	[illegible]	3.48	20 yrs	8.34	8.36	8.44	8.36	8.37	8.58	8.47	8.47	8.69
4 Irredeemables (6)	182.82	+0.72	181.66	3.26	1.47	Irred.†	8.35	8.40	8.47						
5 All stocks (58)	140.52	+0.04	140.51	2.49	[illegible]										

Index-linked	Wed Mar 27	Day's change %	Tue Mar 26	Accrued interest	xd adj. ytd		Inflation 5% Mar 27	Inflation 5% Mar 26	Inflation 5% Yr. ago	Inflation 10% Mar 27	Inflation 10% Mar 26	Inflation 10% Yr. ago
6 Up to 5 years (1)	197.14	-0.08	197.08	3.71	0.00	Up to 5 yrs	[illegible]	3.02	3.59	1.84	1.88	2.16
7 Over 5 years (11)	[illegible]	+0.46	183.80	[illegible]	0.84	Over 5 yrs	3.78	[illegible]	3.90	3.57	3.60	3.70
8 All stocks (12)	184.80	+0.45	[illegible]	1.38	0.82							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Mar 27	Mar 26	Mar 25	Mar 22	Mar 21	Yr ago	High*	Low*
Govt. Secs. (UK)	92.38	92.31	92.30	92.15	92.66	91.42	96.34	90.22
Fixed Interest	110.90	110.76	110.86	110.86	110.89	110.34	115.23	108.77

* for 1995/96. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Mar 26	Mar 25	Mar 22	Mar 21	Mar 20
Gilt Edged bargains	94.3	105.5	84.9	96.7	98.7
5-day average	95.6	97.5	96.2	97.4	102.0

UK GILTS PRICES

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on March 27

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Dollar optimism returns to foreign exchanges

By Philip Gawith

There was a spring in the heel of markets yesterday as talk of a dollar rally resurfaced following weeks spent meandering in the doldrums.

There was no particular event or data release to point to, but the return of some volatility to the market increased speculation that the dollar would break out of its recent ranges, and the balance of evidence appears to favour a break up, rather than down.

Part of the reason for dollar optimism springs from the expectation that German interest rates will be cut before US rates are. But most economists believe the Bundesbank council will leave rates unchanged when it meets today.

The dollar finished in London at DM1.4875, from DM1.4758. Against the yen it closed at Y106.74, from Y106.245.

The D-Mark was generally weaker in Europe, pushed lower by the dollar rally. The French franc was the main winner, rallying to close at FFr3.412 against the D-Mark, a level not seen since January. The Bank of Spain did not comment on reports that it was selling pesetas in order to prevent the currency breaching the Pta84 level against the D-Mark. It finished at Pta84.01, from Pta84.06.

Even sterling was able to shake-off its meat-induced woes to rally against the ailing D-Mark. It finished at DM2.2586, from DM2.2463. It slipped to $1.5184 against the dollar, from $1.5222.

Elsewhere, political tensions in South Africa saw the rand fall to a five week low against the dollar. It closed at R3.9828, from R3.942.

■ The pick-up in dollar volatility seen yesterday was taken by traders as a positive signal, given that in previous weeks it had been confined to very narrow ranges against all leading currencies.

Mr Tony Norfield, UK treasury economist at ABN AMRO in London, said: "It is a signal that pressure is building up for a big move."

Part of the explanation for increased price movement can be found in the options market. Many traders and investors have recently put in place trading strategies whose profitability depends on currencies continuing to trade within defined ranges. Once the exchange rate approaches these levels, the people who have either bought or sold options have to adopt hedging strategies in case these ranges are broken.

Inasmuch as there was a trigger for the change in sentiment, it came in the form of speeches from various Bundesbank council members stressing that rate cuts remained on the agenda.

A further fillip to sentiment came from renewed discussion about future single currency arrangements in Europe. Mr Norfield said indications that France and Germany wanted to build an ERM Mark 2, linking "high-yielding" currencies to the core, to prevent them devaluing, would probably boost these currencies at the D-Mark's expense.

Mr Paul Meggyesi, currency analyst at Deutsche Morgan Grenfell in London, said dollar bulls were again putting their heads above the parapets after a quiet few weeks. He said the positive sentiment, which has endured for some time, was being translated into active buying interest.

He said there had been evidence of market-positioning in anticipation of a cut in German rates. This was seen as being a low-risk trade, a question of when rather than if.

Mr Norfield predicted that the dollar could now rally to DM1.52, but Mr Meggyesi said he was sceptical whether it yet had the momentum to break DM1.50. He said this would probably require greater clarity on the US economic situation, or on the path of German interest rates.

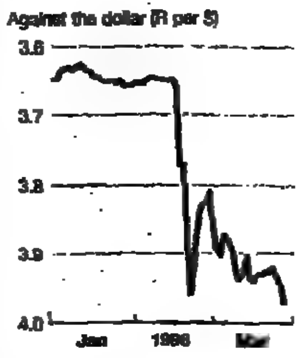
Mr Meggyesi pointed out that the recent volatility in the US treasury market was not conducive to holding the dollar.

The dollar's performance against the yen seems to be being driven in part by the strong performance of the Nikkei. This reduces the need for Japanese investors to repatriate money from abroad to bolster balance sheets, while the wealth effect it creates also encourages investors to place money off-shore. This is especially so given that there does not appear to be any imminent likelihood of the wealth effect being countered by rising interest rates.

"The more the Nikkei rallies the greater the chance is that the dollar continues to push higher," said Mr Meggyesi.

Rand

Against the dollar (R per $)



Source: FT Extel

■ **Pound in New York**

Mar 27	— Latest —	Prev. close —
£ spot	1.5180	1.5240
1 mth	1.5172	1.5232
3 mth	1.5157	1.5218
1 yr	1.5080	1.5133

■ **OTHER CURRENCIES**

Mar 27	£	$
Czech Rp	41.4540 - 41.4835	27.3070 - 27.3170
Hungary	218.333 - 218.481	143.820 - 143.870
Iran	4555.80 - 4554.30	3000.00 - 3000.00
Kuwait	0.4539 - 0.4546	0.2990 - 0.2993
Poland	3.9167 - 3.9225	2.5800 - 2.5830
Russia	7362.79 - 7369.77	4850.00 - 4853.00
U.A.E.	5.5755 - 5.5788	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Mar 27		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8826	+0.085	748 - 908	15.8925	15.8326	15.8528	2.3	15.7709	2.8	-	-	105.8
Belgium	(BFr)	46.4160	+0.2491	780 - 540	46.4540	46.1970	46.311	2.7	46.101	2.7	45.181	2.7	108.0
Denmark	(DKr)	8.7173	+0.0425	139 - 206	8.7247	8.6909	8.7057	1.6	8.6809	1.7	8.5743	1.6	108.7
Finland	(FM)	7.0652	+0.0819	619 - 718	7.0718	7.0070	7.0625	0.7	7.0545	0.7	-	-	82.9
France	(FFr)	7.7059	+0.0142	025 - 077	7.7257	7.6916	7.6932	1.9	7.67	1.8	7.5741	1.7	109.8
Germany	(DM)	2.2586	+0.0123	576 - 595	2.2610	2.2506	2.2538	2.6	2.2434	2.7	2.199	2.6	110.0
Greece	(Dr)	367.318	+1.629	760 - 076	368.524	367.091	-	-	-	-	-	-	66.5
Ireland	(I£)	0.9709	+0.0007	701 - 717	0.9735	0.9697	0.9702	0.9	0.9687	0.9	0.9637	0.7	97.5
Italy	(L)	2400.03	+11.4	849 - 156	2407.30	2389.50	2408.28	-4.1	2423.38	-3.9	2478.08	-3.2	73.5
Luxembourg	(LFr)	46.4160	+0.2491	780 - 540	46.4540	46.1970	46.311	2.7	46.101	2.7	45.181	2.7	108.0
Netherlands	(Fl)	2.5270	+0.0137	258 - 282	2.5293	2.5186	2.5212	2.8	2.5088	2.9	2.4571	2.8	106.2
Norway	(NKr)	9.8185	+0.0477	112 - 258	9.8271	9.7685	9.8095	1.1	9.7904	1.1	9.6947	1.3	98.5
Portugal	(Es)	233.143	+1.015	028 - 257	233.337	231.451	233.568	-2.2	234.473	-2.3	-	-	95.4
Spain	(Pta)	189.763	+0.925	702 - 825	189.825	189.116	190.198	-2.8	191.018	-2.6	193.863	-2.2	81.9
Sweden	(SKr)	10.1153	+0.0263	060 - 245	10.1338	10.0958	10.1165	-0.1	10.1181	-0.1	10.1204	-0.1	89.2
Switzerland	(SFr)	1.8224	+0.0093	216 - 232	1.8232	1.8167	1.8162	4.1	1.803	4.3	1.7479	4.1	114.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.4
Ecu	-	1.2161	-0.0056	158 - 185	1.2172	1.2135	1.2148	1.3	1.2118	1.4	1.1985	1.5	-
SDR†	-	1.044100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5183	-0.0036	179 - 186	1.5239	1.5175	-	-	-	-	-	-	-
Brazil	(R$)	1.5001	-0.0033	996 - 006	1.5047	1.4986	-	-	-	-	-	-	-
Canada	(C$)	2.0695	-0.0061	687 - 702	2.0783	2.0684	2.0686	0.4	2.0652	0.8	2.0571	0.6	84.4
Mexico	(New Peso)	11.4514	-0.0295	343 - 685	11.4993	11.4647	-	-	-	-	-	-	-
USA	($)	1.5184	-0.0038	181 - 186	1.5241	1.5177	1.5176	0.6	1.516	0.6	1.5079	0.7	96.1
Pacific/Middle East/Africa													
Australia	(A$)	1.9531	-0.0164	518 - 544	1.9694	1.9518	1.9557	-1.6	1.9607	-1.6	1.986	-1.7	91.2
Hong Kong	(HK$)	11.7403	-0.0292	376 - 430	11.7848	11.7361	11.7322	0.8	11.7206	0.7	11.7009	0.3	-
India	(Rs)	52.0795	+0.4025	431 - 158	52.2158	51.8431	-	-	-	-	-	-	-
Israel	(Shk)	4.7535	+0.0082	488 - 581	4.7894	4.7270	-	-	-	-	-	-	-
Japan	(Y)	162.069	+0.348	997 - 141	162.380	161.830	161.309	5.6	159.754	5.7	153.379	5.4	136.4
Malaysia	(M$)	3.8619	-0.0056	605 - 633	3.8725	3.8603	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2216	-0.0046	201 - 231	2.2335	2.2201	2.2268	-2.7	2.2361	-2.6	2.2699	-2.2	107.1
Philippines	(Peso)	39.7580	-0.0986	983 - 177	39.8177	39.6983	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6946	-0.0141	935 - 957	5.7157	5.6923	-	-	-	-	-	-	-
Singapore	(S$)	2.1407	-0.0003	396 - 418	2.1457	2.1390	-	-	-	-	-	-	-
South Africa	(R)	6.0472	+0.0469	461 - 483	6.0648	6.0027	-	-	-	-	-	-	-
South Korea	(Won)	1187.75	-3.73	745 - 800	1192.83	1187.30	-	-	-	-	-	-	-
Taiwan	(T$)	41.3477	-0.1218	363 - 591	41.5442	41.3346	-	-	-	-	-	-	-
Thailand	(Bt)	38.3200	-0.0731	017 - 447	38.4560	38.3017	-	-	-	-	-	-	-

† Rates for Mar 26. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 27		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.4608	+0.082	570 - 641	10.4641	10.3945	10.4433	2.0	10.4071	2.0	10.2456	2.1	106.8
Belgium	(BFr)	30.5700	+0.24	500 - 900	30.5900	30.3540	30.517	2.1	30.4105	2.1	29.93	2.1	107.8
Denmark	(DKr)	5.7413	+0.0423	400 - 425	5.7430	5.7063	5.7363	1.0	5.7263	1.0	5.7488	-0.1	108.0
Finland	(FM)	4.6543	+0.0522	518 - 568	4.6568	4.6025	4.6476	1.7	4.6058	1.6	4.5903	1.4	82.6
France	(FFr)	5.0748	+0.022	740 - 755	5.0795	5.0530	5.0692	1.3	5.0595	1.2	5.0173	1.1	109.1
Germany	(DM)	1.4875	+0.0117	871 - 879	1.4879	1.4779	1.485	2.0	1.4796	2.1	1.4568	2.1	109.5
Greece	(Dr)	242.315	+1.675	250 - 380	242.850	241.000	243.99	-8.3	247.24	-8.3	261.315	-7.8	66.0
Ireland	(I£)	1.5639	-0.005	629 - 649	1.5705	1.5616	1.5644	-0.3	1.5647	-0.2	1.5541	0.6	-
Italy	(L)	1580.68	+11.43	993 - 143	1582.50	1569.15	1586.73	-4.6	1598.28	-4.5	1639.18	-3.7	73.1
Luxembourg	(LFr)	30.5700	+0.24	500 - 900	30.5900	30.3540	30.517	2.1	30.4105	2.1	29.93	2.1	107.8
Netherlands	(Fl)	1.6643	+0.0132	638 - 648	1.6648	1.6538	1.6612	2.2	1.6549	2.2	1.6278	2.2	107.7
Norway	(NKr)	6.4666	+0.0475	628 - 703	6.4703	6.4185	6.4636	0.5	6.4581	0.5	6.4216	0.7	97.8
Portugal	(Es)	153.550	+1.05	500 - 600	153.600	152.200	153.865	-2.5	154.455	-2.4	156.6	-2.0	95.6
Spain	(Pta)	124.980	+0.92	950 - 000	125.000	124.150	125.32	-3.3	125.99	-3.2	128.36	-2.7	81.7
Sweden	(SKr)	6.6620	+0.0339	570 - 670	6.6696	6.6247	6.673	-2.0	6.6905	-1.7	6.7325	-1.1	88.6
Switzerland	(SFr)	1.2003	+0.0092	999 - 006	1.2006	1.1925	1.1967	3.5	1.1895	3.6	1.1583	3.5	114.1
UK	(£)	1.5184	-0.0038	181 - 186	1.5241	1.5177	1.5176	0.6	1.516	0.6	1.5079	0.7	82.8
Ecu	-	1.2486	-0.0091	483 - 488	1.2549	1.2483	1.2493	-0.7	1.251	-0.8	1.2598	-0.9	-
SDR†	-	0.68420	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0000	-	999 - 000	1.0000	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9880	+0.0003	878 - 881	0.9882	0.9876	-	-	-	-	-	-	-
Canada	(C$)	1.3630	-0.0006	627 - 632	1.3632	1.3609	1.3628	0.1	1.3631	0.0	1.3659	-0.2	83.5
Mexico	(New Peso)	7.5420	-0.0005	320 - 520	7.5520	7.5300	7.5442	-0.4	7.5474	-0.3	7.5623	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.6
Pacific/Middle East/Africa													
Australia	(A$)	1.2863	-0.0075	857 - 870	1.2870	1.2922	1.2883	-1.9	1.2918	-1.7	1.3105	-1.9	91.7
Hong Kong	(HK$)	7.7323	+0.0001	318 - 328	7.7328	7.7315	7.733	-0.1	7.7348	-0.1	7.7618	-0.4	-
India	(Rs)	34.3000	+0.35	500 - 500	34.4500	34.0500	34.45	-5.2	34.755	-5.3	36.225	-5.6	-
Israel	(Shk)	3.1307	+0.0132	281 - 332	3.1456	3.1074	-	-	-	-	-	-	-
Japan	(Y)	106.740	+0.495	710 - 770	106.850	106.390	106.295	5.0	105.395	5.0	101.885	4.6	137.0
Malaysia	(M$)	2.5435	+0.0025	430 - 440	2.5440	2.5380	2.5444	-0.4	2.5505	-1.1	2.574	-1.2	-
New Zealand	(NZ$)	1.4631	+0.0007	624 - 638	1.4641	1.4655	1.4662	-2.6	1.472	-2.4	1.4966	-2.3	-
Philippines	(Peso)	26.1850	-	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0001	504 - 506	3.7506	3.7504	3.751	-0.1	3.7517	-0.1	3.756	-0.1	-
Singapore	(S$)	1.4099	+0.0034	094 - 104	1.4104	1.4070	1.4068	3.0	1.4003	2.7	1.3749	2.5	-
South Africa	(R)	3.9828	+0.0408	820 - 835	3.9895	3.9440	4.0115	-8.7	4.0631	-8.1	4.2863	-7.6	-
South Korea	(Won)	782.250	-0.5	200 - 300	782.700	782.200	785.25	-4.6	788.75	-3.3	807.25	-3.2	-
Taiwan	(T$)	27.2320	-0.015	290 - 350	27.2510	27.2290	27.252	-0.9	27.292	-0.9	-	-	-
Thailand	(Bt)	25.2400	+0.015	300 - 500	25.2900	25.2300	25.3387	-4.7	25.5425	-4.8	26.425	-4.7	-

† SDR rate per $ for Mar 26. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 26: Base average 1990=100. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

WORLD INTEREST RATES

MONEY RATES

March 27	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
France	4	4[illegible]	4⅛	4[illegible]	4[illegible]	3.80	-	5.60
week ago	4	4[illegible]	4[illegible]	4[illegible]	4[illegible]	3.80	-	5.60
Germany	3[illegible]	3[illegible]	3[illegible]	3[illegible]	3⅝	5.00	3.00	3.30
week ago	3[illegible]	3[illegible]	3[illegible]	3[illegible]	3⅝	5.00	3.00	3.30
Ireland	5½	5[illegible]	5[illegible]	5[illegible]	5[illegible]	-	-	6.25
week ago	5½	5[illegible]	5[illegible]	5¼	5½	-	-	6.25
Italy	9[illegible]	9[illegible]	9[illegible]	9¾	9[illegible]	-	9.00	9.96
week ago	9[illegible]	9[illegible]	9[illegible]	9⅝	9½	-	9.00	9.96
Netherlands	3⅛	3⅛	3⅛	3[illegible]	3[illegible]	-	3.00	3.30
week ago	3[illegible]	3⅛	3[illegible]	3[illegible]	3[illegible]	-	3.00	3.30
Switzerland	1⅝	1⅝	1⅝	1⅝	1⅞	5.00	1.50	-
week ago	1[illegible]	1[illegible]	1[illegible]	1⅝	1⅞	5.00	1.50	-
US	5[illegible]	5[illegible]	5⅛	5[illegible]	5[illegible]	-	5.00	-
week ago	5[illegible]	5[illegible]	5[illegible]	5[illegible]	5[illegible]	-	5.00	-
Japan	½	[illegible]	[illegible]	¾	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5[illegible]	5[illegible]	5[illegible]	5⅝	-	-	-
week ago	-	5[illegible]	5[illegible]	5½	5¾	-	-	-
US Dollar CDs	-	4.95	5.06	5.15	5.38	-	-	-
week ago	-	4.95	5.15	5.26	5.52	-	-	-
ECU Linked Ds	-	4[illegible]	4[illegible]	4[illegible]	4⅝	-	-	-
week ago	-	4[illegible]	4⅝	4⅝	4¾	-	-	-
SDR Linked Ds	-	3[illegible]	3[illegible]	3⅝	3[illegible]	-	-	-
week ago	-	3[illegible]	3[illegible]	3[illegible]	3½	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 27	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4½ - 4[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	4⅛ - 3[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4½ - 4[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	5[illegible] - 5[illegible]	6 - 5⅞	6 - 5[illegible]	6[illegible] - 6	[illegible]	[illegible]
Swiss Franc	[illegible]	2⅛ - 1⅞	1⅞ - 1⅝	[illegible]	[illegible]	[illegible]
Can. Dollar	5 - 4[illegible]	[illegible]	5 - 4⅞	[illegible]	[illegible]	[illegible]
US Dollar	5¾ - 5½	5½ - 5¼	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	2 - 1[illegible]	2⅛ - 2⅛	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.60	95.61	+0.10	95.64	95.58	28,143	55,427
Sep	95.58	95.59	+0.11	95.61	95.56	10,888	45,910
Dec	95.45	95.45	+0.08	95.47	95.43	3,868	25,362

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.78	96.77	-	96.79	96.75	33433	234895
Sep	96.71	96.66	-0.02	96.71	96.65	27779	227047
Dec	96.43	96.40	-0.01	96.47	96.38	25533	177868
Mar	96.11	96.07	-0.02	96.14	96.07	15741	113006

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	90.50	90.43	+0	90.57	90.34	13756	41028
Sep	90.90	90.83	+0.03	90.92	90.74	4808	21058
Dec	90.98	90.93	+0.03	90.98	90.84	2167	16521
Mar	90.86	90.86	+0.03	90.87	90.79	324	7579

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.30	98.27	+0	98.30	98.26	4160	28050
Sep	98.20	98.14	-0.02	98.20	98.13	1736	13180
Dec	97.90	97.88	-0.02	97.89	97.85	1154	9123
Mar	97.58	97.52	-0.03	97.58	97.52	918	1958

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.45	95.44	+0.02	95.45	95.40	1511	9114
Sep	95.44	95.42	+0.03	95.44	95.40	521	3541
Dec	95.22	95.23	+0.05	95.24	95.21	358	2906
Mar	94.91	94.91	+0.03	94.91	94.81	5	1719

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9025	0.45	0.88	1.03	0.27	0.28	0.35
9050	0.31	0.69	0.86	0.38	0.36	0.43
9075	0.20	0.54	0.70	0.52	0.46	0.52

Est. vol. total, Calls 300 Puts 275. Previous day's open int., Calls 18327 Puts 10039

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 27		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.78	16.60	4.864	2.092	5170	5.444	21.15	502.2	408.7	21.78	3.925	2.154	4.457	3.270	349.2	2.620
Denmark	(DKr)	53.25	10	8.839	2.590	1.114	2753	2.899	11.26	267.4	217.6	11.60	2.090	1.147	2.374	1.741	186.0	1.395
France	(FFr)	60.25	11.31	10	2.931	1.260	3115	3.280	12.74	302.5	246.2	13.12	2.365	1.298	2.685	1.970	210.4	1.578
Germany	(DM)	20.56	3.860	3.412	1	0.430	1063	1.119	4.348	103.2	84.01	4.477	0.807	0.443	0.916	0.672	71.79	0.539
Ireland	(I£)	47.81	8.977	7.935	2.325	1	2472	2.602	10.11	240.1	195.4	10.41	1.876	1.030	2.131	1.563	166.9	1.252
Italy	(L)	1.934	0.363	0.321	0.094	0.040	100.	0.105	0.409	9.713	7.904	0.421	0.076	0.042	0.086	0.063	6.754	0.051
Netherlands	(Fl)	18.37	3.450	3.049	0.894	0.384	949.7	1	3.885	92.24	75.07	4.001	0.721	0.396	0.819	0.601	64.15	0.481
Norway	(NKr)	47.28	8.879	7.848	2.300	0.989	2444	2.574	10	237.4	193.2	10.30	1.856	1.019	2.107	1.546	165.1	1.239
Portugal	(Es)	19.91	3.740	3.305	0.969	0.417	1030	1.084	4.212	100.	81.38	4.337	0.782	0.429	0.888	0.651	69.54	0.522
Spain	(Pta)	24.47	4.595	4.062	1.190	0.512	1265	1.332	5.175	122.9	100.	5.329	0.960	0.527	1.091	0.800	85.45	0.641
Sweden	(SKr)	45.91	8.622	7.621	2.233	0.960	2374	2.500	9.711	230.6	187.8	10	1.802	0.989	2.046	1.501	160.3	1.203
Switzerland	(SFr)	25.48	4.784	4.229	1.239	0.533	1317	1.387	5.389	127.9	104.1	5.549	1	0.549	1.136	0.833	88.97	0.667
UK	(£)	46.42	8.717	7.705	2.259	0.971	2400	2.527	9.818	233.1	189.7	10.11	1.822	1	2.069	1.518	162.1	1.216
Canada	(C$)	22.44	4.213	3.724	1.091	0.469	1160	1.221	4.745	112.7	91.69	4.886	0.881	0.483	1	0.734	78.35	0.588
US	($)	30.58	5.742	5.076	1.487	0.640	1581	1.665	6.466	153.6	125.0	6.660	1.200	0.659	1.363	1	106.8	0.801
Japan	(Y)	28.64	5.378	4.753	1.393	0.599	1481	1.559	6.057	143.8	117.0	6.237	1.124	0.617	1.276	0.936	100.	0.750
Ecu	-	38.17	7.169	6.336	1.857	0.799	1974	2.078	8.074	191.7	156.0	8.314	1.498	0.822	1.701	1.248	133.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6796	0.6766	-0.0027	0.6771	0.6762	7,494	52,285
Sep	0.6801	0.6801	-0.0029	0.6801	0.6801	12	2,107
Dec	-	0.6868	-	-	-	5	182

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9491	0.9478	-0.0013	0.9487	0.9472	10,272	65,248
Sep	-	0.9602	-	-	-	266	1,[illegible]
Dec	-	0.9750	-	-	0.9720	261	1,383

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8449	0.8418	-0.0029	0.8425	0.8410	4,972	27,303
Sep	0.8485	0.8485	-0.0027	0.8489	0.8485	1	586
Dec	-	0.8594	-	-	-	2	504

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5212	1.5155	-0.0046	1.5186	1.5158	15,544	45,806
Sep	1.5150	1.5166	-0.0028	1.5166	1.5150	11	28
Dec	-	1.5180	-	-	1.5150	3	32

UK INTEREST RATES

LONDON MONEY RATES

Mar 27	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 4½	6 - 5⅝	6[illegible] - 5[illegible]	6⅛ - 6	6[illegible] - 6	6[illegible] - 6[illegible]
Sterling CDs	-	-	6 - 5[illegible]	6[illegible] - 5[illegible]	6[illegible] - 5[illegible]	6⅛ - 6[illegible]
Treasury Bills	-	-	5[illegible] - 5⅞	5[illegible] - 5[illegible]	-	-
Bank Bills	-	-	5[illegible] - 5⅞	5⅞ - 5[illegible]	5⅞ - 5[illegible]	-
Local authority deps.	5⅞ - 5⅛	5[illegible] - 5[illegible]	6 - 5⅞	6[illegible] - 5[illegible]	6[illegible] - 5[illegible]	6⅛ - 6
Discount Market deps	5⅞ - 5	5[illegible] - 5[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Mar 22, 5.7758pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 29, 1996. Agreed rate for period Mar 26, 1996 to Apr 23, 1996, Schemes II & III 7.48pc. Reference rate for period Feb 1, 1996 to Feb 29, 1996, Schemes IV & V 6.236pc. Finance House Base Rate 6.5pc from March 1, 1996

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.95	93.92	-	93.95	93.91	9707	81551
Sep	93.75	93.72	-	93.77	93.71	11218	60038
Dec	93.39	93.35	-0.01	93.42	93.35	11780	51856
Mar	92.99	92.94	-0.02	93.00	92.93	3026	35156
Jun	92.66	92.60	-	92.68	92.60	1205	31401

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9375	0.24	0.25	0.25	0.07	0.28	0.65
9400	0.09	0.14	0.16	0.17	0.42	0.81
9425	0.03	0.07	0.10	0.36	0.60	1.00

Est. vol. total, Calls 182 Puts 685. Previous day's open int., Calls 112009 Puts 103674

EMS EUROPEAN CURRENCY UNIT RATES

Mar 27	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.171	+0.108	-2.04	4.92	14
Netherlands	2.15214	2.11956	+0.00196	-1.51	4.35	11
Belgium	39.3960	38.9260	+0.0352	-1.19	4.01	9
Austria	13.4383	13.3206	+0.0119	-0.88	3.68	6
Germany	1.91007	1.89420	+0.00175	-0.83	3.64	8
Portugal	195.792	195.653	+0.177	-0.07	2.85	0
Denmark	7.28580	7.31420	+0.00586	0.39	2.37	-3
France	6.40608	6.46569	-0.01473	0.93	1.82	-8
Ireland	0.792214	0.814190	-0.001841	2.77	0.00	-19
NON ERM MEMBERS						
Greece	292.867	308.693	+0.067	5.40	-2.49	-
Italy	2106.15	2015.48	+8.19	-4.31	7.40	-
UK	0.786652	0.839616	+0.022585	6.61	-3.59	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
1.500	2.40	2.71	3.19	0.16	0.43	1.07
1.510	1.59	2.07	2.55	0.28	0.81	1.44
1.520	0.90	1.49	2.06	0.61	1.23	1.89
1.530	0.47	1.02	1.60	1.15	1.77	2.42
1.540	0.19	0.67	1.21	1.87	2.41	2.98
1.550	0.05	0.41	0.89	2.85	3.08	3.65

Previous day's vol., Calls 1,806 Puts 4,073 . Prev. day's open int., Calls 145,849 Puts 152,622

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.61	94.60	-0.01	94.62	94.59	54,775	435,112
Sep	94.50	94.48	-0.01	94.54	94.48	81,504	326,003
Dec	94.32	94.30	-	94.37	94.28	78,847	309,581

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.08	95.09	-	95.11	95.08	595	8,340
Sep	94.95	94.94	-0.02	95.00	94.94	53	3,157
Dec	-	94.84	-	-	94.84	4	176

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
9675	0.07	0.10	0.12	0.15	0.05	0.08	0.10	0.24
9700	0.02	0.03	0.04	0.05	0.25	0.26	0.27	0.40
9725	0	0.01	0.01	0.02	0.48	0.49	0.49	0.61

Est. vol. total, Calls 19142 Puts 6550. Previous day's open int., Calls 327132 Puts 284623

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9825	0.14	0.16	0.16	0.12	0.27	0.56
9850	0.06	0.07	0.08	0.29	0.43	0.73
9875	0.01	0.04	0.03	0.49	0.65	0.93

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5085 Puts 3048

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.25	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs.	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00		
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.00		
		●Rea Brothers	6.00		

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(Incorporated and Registered in England and Wales No. 1403668)

Proposed listing of warrants of Aegis Group plc

Share capital following the warrant listing

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A circular required by the London Stock Exchange setting out the particulars of the warrants has been published and copies may be obtained during normal business hours on Thursday, 28 March 1996 and Friday, 29 March 1996 from the Company Announcements Office, the London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2N 1HP (by collection only) and on any weekday (Saturdays excepted) up to and including Friday, 12 April 1996 from:

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28 March 1996

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¥30,000,000,000

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To exercise such option the holder must deposit such Bond, between 7th May, 1996 and 7th June, 1996, together with all Coupons relating to it which mature after the date fixed for redemption, with any Paying Agent together with a duly completed redemption notice in the form obtainable from any of the following Paying Agents:

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8th March, 1996

PEREGRINE

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	aWv□	492	-1	588	478½	5,087	6.0	17.8
Bulmer (HP)		603	+8	603	401	318.4	2.5	18.9
Burn St Dist		116	—	145	99	89.2	5.5	24.5
Grand Met		427xd	+2	457	374	9,941	4.4	18.4
Guinness		485½	+4½	538	435	8,966	4.1	15.5
Highland		342	-1	406	375	455.6	2.9	15.6
Kirin Y	□	798	+22½	808	621	8,377	0.8	30.7
Macallan-Glen		180	-3	217	157	187.8	1.0	35.5
Macdon Martin A		833	—	838	600	88.7	2.7	17.8
Matthew Clark	□	736xd	-1	737	554	649.8	3.7	–
Merrydown		103	+1	140	86	11.2	2.4	–
Seagram $		£22⅞	+1/16	£26	£16¼	6,094	1.3	–

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Pf		50¼	—	59¼	50½	6.31	19.8	–
Cater Allen		445	—	625	424	148.0	8.4	7.4
Close Bros	□	371xd	—	392	251½	453.0	3.9	16.5
Gerrard & Nat		406	—	472	399	197.8	7.0	13.0
Hambros	□	235	—	239	180	415.7	4.0	–
7½pc Cv Pf		107xd	+½	109	94½	137.9	8.6	–
King & Shaxson	□	162	—	165	85	40.7	7.4	11.6
Leopold J		450	—	463	353	29.9	5.2	15.5
Rea Brothers		59	—	67	44	28.5	2.1	ф
Schroders	□	1200xd	+7	1478	1015½	1,812	1.7	18.8
N/V		909xd	-2	1180	880	387.3	2.2	17.6
Singer & Fried	□	100½	-1	113	81	198.5	5.1	7.9
[illegible]		[illegible]						

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[illegible]

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Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on assumed dividend
b Figures based on prospectus or other official estimates for [illegible]
[illegible] preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on [illegible] prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates for [illegible]

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mngmt Ltd

[illegible]

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

[illegible]

Royal Bank of Canada Intl Money Market Fd

[illegible]

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

[illegible]

The Fidelity Trust Global Fund

[illegible]

Guinness Flight Select Funds Plc

[illegible]

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

[illegible]

Chemical Ireland Fund Administrators Ltd

[illegible]

Ashburton Global Funds Ltd (1200)

[illegible]

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

[illegible]

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

[illegible]

JERSEY (REGULATED)(**)

Bank of Scotland Fund Managers (Jersey) Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

[illegible]

John Govett Management - Contd.

[illegible]

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (a)

[illegible]

Eligistan Global SICAV (a)

[illegible]

Rothschild Asset Management

[illegible]

LUXEMBOURG (REGULATED)(**)

Asian International Umbrella Fund (a)

[illegible]

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OFFSHORE INSURANCES

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MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

FT-SE Mid 250 sets new record as equities rally

By Steve Thompson,
UK Stock Market Editor

An overwhelmingly successful debut for Orange, the cellular phones group, relief at the outcome of the £3bn gilts auction, and a rumour that a FT-SE 100 bid could arrive this morning, gave a much better feel to the UK stock market yesterday.

The mood was also helped by a growing conviction among traders that most of the damage caused to sentiment by the BSE scare was now priced into the market.

At the close of a trading session featured by exceptionally heavy activity in a number of individual stocks, the FT-SE 100 index ended 11.5 points up at 3,672.4. The index had lost 46.1, or 1.2 per cent, over the previous two sessions, when gilts and shares were hurt by the mad cow disease controversy.

The FT-SE Mid 250's performance was equally impressive, with that index once again crossing the 4,300 level and settling 11.5 ahead at a record 4,305.7. The Mid 250 has held up impressively relative to the FT-SE 100 this week, mostly because of heavy downwards pressure on the leading index from the futures market.

It was evident from the outset yesterday that much of the downside pressure being exerted on the Footsie future, which has been evident over the past two weeks, had dissipated.

The day began brightly, with Wall Street's overnight strength, which saw the Dow Jones Industrial Average up 27 points, prompting an early 7.9 rise in the Footsie.

Although there was plenty of nervousness about the £3bn auction of five-year gilts, this subsequently disappeared with news that the auction was covered 2.64 times. Gilts moved ahead smoothly in the wake of the result, helping equities along the way.

A mid-morning bout of profit-taking was easily absorbed, dealers said, and prices ran ahead again, reaching the day's best over the lunchtime period. A slightly disappointing performance by Wall Street during the late afternoon took the edge off the market.

Thereafter, traders were preoccupied with the debut of Orange. The shares, priced at 205p, kicked off at 240p-245p, well above the most optimistic estimates of around 230p-235p, but eased back after some heavy profit-taking. Turnover in Orange reached 74m shares, almost 8 per cent of the market total.

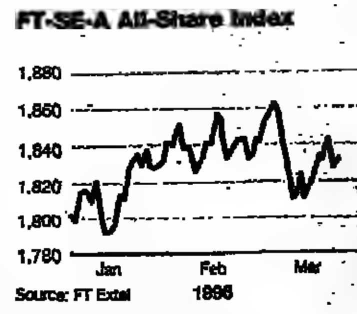
The good news on Orange gave a boost to British Aerospace, which saw its 31.6 per cent shareholding in the group reduced to around 22.7 per cent in the flotation.

Adding to the excitement in the market was a £42m share buyback by Iceland, the frozen foods group, a £90m rights issue from Barratt Developments, the housebuilder, and a host of important trading statements from leading companies.

Of these, Kingfisher impressed the City with top of the range preliminary results and encouraging comments on sales during the first six weeks of its financial year. Oil shares again attracted heavy support from the US, in the wake of renewed gains in crude oil prices.

Turnover at 6pm fell just short of the 1bn-share mark, hitting 990.7m; non-Footsie stocks accounted for 67 per cent of the total volume.

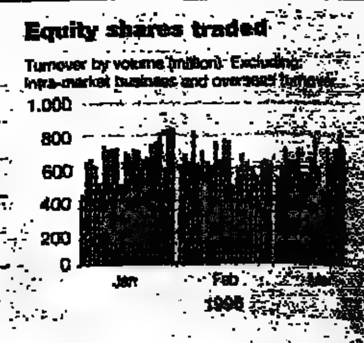
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (millions). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3672.4	+11.5
FT-SE Mid 250	4305.7	+11.2
FT-SE-A 350	1851.1	+5.8
FT-SE-A All-Share	1831.51	+5.34
FT-SE-A All-Share yield	3.84	3.86
FT Ordinary index	2744.9	
FT-SE-A Non Fins p/e	16.86	16.84
FT-SE100 Fut Jun	3675.0	+21.5
10 yr Gilt yield	8.13	8.12
Long gilt/equity yld ratio:	2.21	2.20

Best performing sectors

1 Oil Exploration +2.5
2 Extractive Industries +1.3
3 Mineral Extraction +1.1
4 Paper, Pckg & Print +1.1
5 Banks: Retail +1.0

Worst performing sectors

1 Telecommunications
2 Electronic & Elect -0.5
3 Gas Distribution -0.5
4 Insurance -0.4
5 Utilities -0.4

Brilliant debut for Orange

Mobile phones group Orange made a strong start, but there was said to be steady US selling and much of the day's premium apeared to be driven by a technical shortage of stock.

Against a flotation price of 205p, the shares opened at around 243p. By the close, however, the stock stood at 237½p, with turnover reaching 74m shares.

There was said to be a substantial two-way pull between those funds anxious to buy Orange shares ahead of probable Footsie inclusion at the next change for the index in June and institutions frustrated at the low level of allotment.

One telecoms analyst said: "The shares were quick to find a level. There should be solid support from index tracking funds, at least until June."

Rival mobile phones group Vodafone, up 4 at one stage, ended 3½ lower at 244½p.

British Aerospace, which has a 22.7 per cent stake in Orange worth around 155p a share, put on 13 at 868p.

Pilkington hit

Pilkington crashed to the bottom of the Footsie rankings, after the glass giant warned that its June results statement would include a big restructuring charge.

The news triggered a round of profits downgrades by brokers and left the shares nearly 4 per cent off in the second heaviest volume this year, 9.9m. They lost 8 at 195½p.

Most analysts were going for profits this year of around £225m. The consensus now looks to be nearer to £210m. But the mood was not uniformly pessimistic. Merrill Lynch stayed a buyer and opted to hold fire on forecasts until the 1995-96 results emerge in June.

Merrill feels that the restructuring is a reflection of the sheer pace of Pilkington's cost-cutting programme rather than a harbinger of slowing earnings momentum. SGST also put out a buy recommendation.

Strong results plus a 10 per cent dividend increase from housebuilder Barratt Developments sparked profits upgrades, but news of the £90m rights issue took the shine off sentiment. The shares closed 7 lower at 233p.

Kingfisher pleases

There was no disguising the market's pleasure at preliminary figures from retailing group Kingfisher. The shares jumped 21 to 554p in busy trade of 6.7m.

Dealers were also cheered by a confident statement about current trading. Analysts upgrading current year profit forecasts yesterday included BZW, which raised its estimate by 5 per cent to £335m and shifted its recommendation from "hold" to "buy".

However, analysts at Strauss Turnbull remained cautious about Kingfisher and Mr Robert Smith at the broker said he is unsure that the company is able to sustain "long term organic growth".

A squeeze was recorded in Argos and the shares advanced 16½ to 649½p.

Glaxo Wellcome fell on a mixture of profit-taking and genuine selling.

Dealers pointed out that the shares had risen sharply on Tuesday in response to a rumour – later denied by Glaxo – that it intended to merge with Pfizer, of the US.

Later the shares eased on news that Japan's Sankyo had delayed the launch of its Noscal diabetes drug, after tests showed that ulcers were found in the blood vessels of mice. Glaxo, along with US group Warner-Lambert, is a licensee for the drug. Analysts said the news was not serious as Glaxo only had European rights to the drug.

Finally there were reports that the US Federal Trade Commission is to investigate allegations that pharmaceuticals companies overcharged independent pharmacies. A newspaper report said investigators had subpoenaed internal documents from several of the companies and the investigation included Glaxo and Zeneca, as well as Ciba-Geigy, Hoechst and others.

All that news offset the issue by SBC Warburg of 2m American style call warrants, on a basket of shares made up of Glaxo Wellcome, Zeneca, SmithKline Beecham and Smith & Nephew. The September 1997 warrants have a strike price of £11 each. Glaxo fell 4½ to 831p, Zeneca 4 to 1337p and SmithKline Beecham 3 to 674p. Smith & Nephew was up a penny at 181½p.

Leading oil stocks continued their run upwards, in response to a firmer crude oil price and heavy buying in the US on Tuesday night. BP rose 8½ to a new closing high of 577p. Shell Transport put on 3 at 868p and Enterprise 19 at 442p.

Food retailer Iceland Group was by far the day's most heavily traded individual stock after the group bought back 27m shares at 156p a share. The deal was only announced at the start of the session and was carried out through ABN Amro Hoare Govett and Charterhouse Tilney.

The stock gave up early gains to close unchanged at 155p, on closing volume of 55m.

Barclays firmed 4 to 729p, with Credit Lyonnais Laing raising its full-year forecast for 1997 by £200m to £2.5bn to reflect cost savings from job cuts. The broker has factored in 7,000 job losses over the next two years.

A fall of 33 to 312p in Tom Cobleigh, the East Midlands and Yorkshire pub retailer, was due mainly to a downgrading by Hoare Govett, the company's broker, of its profits forecast for the year.

Hoare Govett cut by 20 per cent to £4m after the company reported that it was facing "some small delays" in planning permission for some 15 new pubs. The downgrading was reinforced by Cobleigh's sale of 21 pubs to Century Inn. Although not part of Cobleigh's core business, the pubs sale will dilute earnings.

Channel tunnel operator Eurotunnel trudged down to another new all-time low, on news that staff at its flagship Eurostar operations had voted for strike action ahead of the peak Easter holiday weekend. The shares eased a penny to 85p for a three-day decline of 12 per cent.

Contract distributor Tibbett & Britten surged almost 20 per cent, adding 82 at 505p, after a held 1995 dividend and an upbeat statement on trading.

RTZ improved 13 to 938p, as the market decided it was not about to spend cash on a bid for Diamond Fields, the majority owner of the Voisey's Bay nickel deposit in Canada's Labrador. Diamond Fields is already facing a C$4bn offer from Falconbridge.

United Utilities jumped 19 to 697p ahead of today's presentation by the company to analysts. United is to discuss the progress of its integration of Norweb. It is expected to announce provisions and job losses but enhanced earnings.

Calor, the bottled gas group, gained 8 to 271p ahead of figures on March 29. Mr Jurjen Lunshof of Credit Lyonnais Laing is a buyer on the basis that the weather has been in the company's favour and the new management is getting the company into shape.

MARKET REPORTERS:
Peter John, Joel Kibazo,
Jeffrey Brown, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Mar 27	Mar 26	Mar 25	Mar 22	Mar 21	Yr ago	*High	*Low
Ordinary Share	2744.9	2738.9	2756.6	2769.1	2769.3	2405.9	2807.9	2238.3
Ord. div. yield	3.95	3.96	3.93	3.92	3.92	4.39	4.73	3.76
P/E ratio net	16.28	16.24	16.34	16.41	16.39	16.66	21.35	15.36
P/E ratio nil	15.96	15.92	16.03	16.09	16.07	16.48	22.21	15.17

Ordinary Share index since compilation: high 2807.9 08/03/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2745.6	2749.5	2747.7	2748.4	2748.8	2751.1	2751.7	2749.0	2744.6	2752.6	2743.3

	Mar 27	Mar 26	Mar 25	Mar 22	Mar 21	Yr ago
SEAQ bargains	42,771	45,131	42,894	40,827	39,543	34,820
Equity turnover (£m)†	-	1891.8	1568.8	2154.4	2070.6	1831.5
Equity bargains†	-	62,667	50,558	47,122	48,346	48,800
Shares traded (mil)†	-	889.0	710.3	788.7	724.5	798.8

†Excluding intra-market business and overseas turnover.

	Mar 27	Mar 26	Mar 25	Mar 22	Mar 21	Yr ago	*High	*Low
FT-SE AIM	994.60	996.00	997.20	998.80	992.30	-	1084.62	965.86

*For 1995/96.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	806	Total Highs	152	Total contracts	28,235
Total Falls	431	Total Lows	18	Calls	13,787
Same	1,551			Puts	14,448

Mar 27 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3662.0	3675.0	+20.5	3685.0	3662.0	10319	63168
Sep		3691.0	+20.5				

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

Jun	4310.0	4310.0	-5.0	4310.0	4310.0	12	

FT-SE 100 INDEX OPTION (LIFFE) (*3671) £10 per full index point

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	17.4	137	122	Easynet						
165	F.P.	37.1	180	180	†First Info						
-	F.P.	45.7	54	53	Fleming Wrld Inc						
-	F.P.	78.4	92	91	Fleming Wrld Unl						
12	F.P.	56.8	16½	14	†Freepages						
154	F.P.	58.9	168	163	Fulmar						

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

FT - SE Actuaries Share Indices — The UK Series

	Mar 27	Day's chge%	Mar 26	Mar 25	Mar 22	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3672.4	+0.3	3660.9	3681.9	3707.0	3142.3	4.04	2.13	14.53	30.62	1488.23
FT-SE Mid 250	4305.7	+0.3	4294.5	4296.8	4304.3	3421.6	3.43	1.72	21.17	46.42	1715.60
FT-SE-A 350	1851.1	+0.3	1845.6	1854.0	1864.6	1558.7	3.91	2.08	15.83	34.49	1533.76
FT-SE-A ALL-SHARE	1831.51	+0.3	1826.17	1833.81	1843.61	1538.43	3.84	2.03	16.02	33.15	1540.99

FT-SE Actuaries All-Share

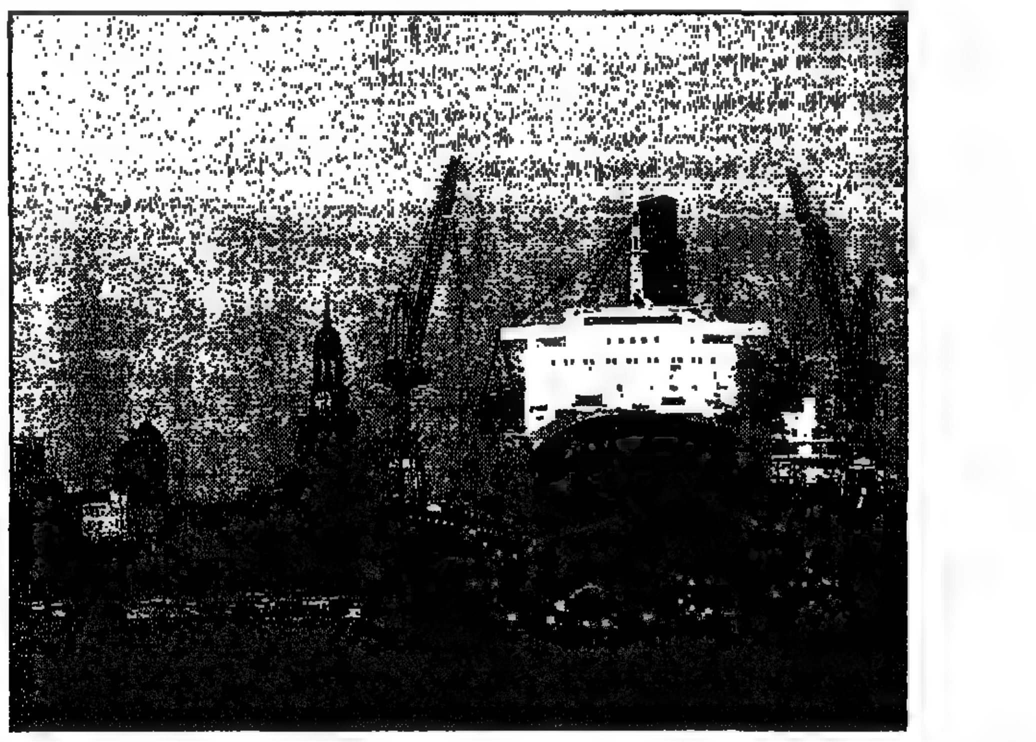
Hourly movements

FT-SE Actuaries 350 Industry baskets

TRADING VOLUME

Major Stocks Yesterday

While you are talking to us about a successful future ▼ ▼ ▼



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Despite a slowdown in economic activity our business developed positively. Based on the dynamic expansion of our long-term lending, total assets increased significantly in 1995. As a foundation for further growth and continuing successful co-operation with you, we increased resources in qualitative as well as quantitative terms. Thanks to our good performance we again achieved satisfactory results. Hamburgische Landesbank. Your individual consultant.

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EQUITY CAPITAL DM 3.9 billion	BUSINESS VOLUME DM 88.6 billion

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WORLD STOCK MARKETS

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PACIFIC

NORTH AMERICA

AFRICA

INDICES

	Mar 27	Mar 26	Mar 25	1995/96 High		1995/96 Low	
Argentina							
General(29/12/77)	(u) 18493.50	16933.05	18191.86	31/1/96		9931.09	9/3/95
Australia							
All Ordinaries(1/1/80)	2258.7	2261.6	2255.4	2323.40	4/3/96	1823.30	8/2/95
All Mining(1/1/80)	1082.0	1046.3	1046.6	1089.30	4/3/96	795.30	8/2/95
Austria							
Credit Aktien(30/12/84)	375.50	375.46	373.69	385.42	2/1/96	328.50	27/10/95
Traded Index(2/1/91)	1067.49	1068.42	1068.30	1094.98	7/2/96	882.15	23/10/95
Belgium							
BEL20(1/1/91)	1664.15	1651.43	1658.90	1725.71	7/3/96	1271.59	9/3/95
Brazil							
Bovespa(29/12/83)	(u)	49817.0	50316.0	54189.09	2/2/96	21382.00	9/3/95
Canada							
Metals Minls(1975)	(u) [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3808.69	1/3/95
Composite(1975)	(u) 4985.21†	4967.21	5062.69	14/2/96		3991.41	30/1/95
Portfolio(1/1/83)	(u) 2448.51†	2431.97	2485.57	8/2/96		1953.38	30/1/95
Chile							
IGPA Gen(31/12/80)	(u)	5333.10	5377.14	6063.10	11/7/95	4678.99	9/3/95
Denmark							
CopenhagenSE(3/1/83)	382.04	380.81	379.98	381.35	13/2/96	330.01	23/3/95
Finland							
HEX General(28/12/90)	1847.22	1848.12	1870.52	2082.22	14/9/95	1555.30	23/3/95
France							
SBF 250(31/12/90)	1382.39	1369.07	1368.75	1382.39	27/3/96	1154.41	13/3/95
CAC 40(31/12/87)	2030.51	2007.95	2003.63	2030.51	27/3/96	1721.14	23/10/95
Germany							
FAZ Aktien(31/12/58)	892.36	885.36	886.13	892.36	27/3/96	708.87	30/3/95
Commerzbank(1/12/53)	2584.1	2563.9	2568.4	2584.10	27/3/96	2018.70	30/3/95
DAX(30/12/87)	2525.42	2499.32	2510.32	2525.42	27/3/96	1910.96	28/3/95
Greece							
Athens SE(31/12/80)	903.61	897.17	(c)	1017.96	4/3/95	787.15	16/3/95
Hong Kong							
Hang Seng(31/7/64)	11080.57	10984.47	11111.76	11594.99	16/2/96	[illegible]	23/1/95

	Mar 27	Mar 26	Mar 25	1995/96 High		1995/96 Low	
Japan							
Topix(4/1/68)	1618.83	1603.86	1598.54	1632.63	5/1/96	1193.18	13/6/95
2nd Section(4/1/68)	2020.09	2012.70	2004.25	2130.88	4/1/96	1441.89	13/6/95
Malaysia							
KLSE Comp.(4/4/86)	1154.00	1164.49	1190.83	1194.49	25/3/96	849.87	24/1/95
Mexico							
IPC(Nov 1978)	(u)	3094.81	3099.08	3101.82	2/2/96	1447.82	27/2/95
Netherland							
CBS TtlRtnGen(End 83)	594.7	590.0	590.3	594.70	27/3/96	422.80	23/3/95
CBS All Shr(End 83)	353.6	350.7	351.3	353.60	27/3/96	265.20	23/3/95
New Zealand							
Cap. 40(1/7/86)	2159.82	2165.14	2165.18	2200.82	20/10/95	1801.43	5/1/95
Norway							
Oslo SE(Ind)(2/1/83)	1334.68	1330.17	1335.11	1342.85	19/3/96	1038.80	10/3/95
Philippines							
Manila Comp(2/1/85)	2834.41	2871.79	2878.61	2888.12	10/7/95	2088.46	20/11/95
Portugal							
STA(1977)	2846.6	2833.2	2825.8	2911.90	9/1/95	2402.80	22/11/95
Singapore							
SES All-S'pore(2/4/75)	569.85	569.12	569.19	600.37	6/2/96	472.80	23/1/95
South Africa							
JSE Gold(28/9/78)	1857.2	1857.7	1814.5	2023.80	2/1/95	1258.20	30/10/95
JSE Ind.(28/9/78)	8313.1	8290.8	8318.3	8788.30	25/1/96	6222.80	31/1/95
South Korea							
KoreaCmpEx(4/1/80)	857.21	850.07	863.27	1027.37	2/1/95	838.87	13/3/96
Spain							
Madrid SE(30/12/85)	340.04	338.80	340.11	345.87	1/3/96	284.95	23/3/95
Sweden							
AffarsvardlnGen(1/2/37)	1923.8	1909.0	1925.8	1927.80	19/3/96	1409.80	23/3/95
Switzerland							
Swiss Bk Ind(31/12/58)	1764.85	1756.20	1761.42	1764.85	27/3/96	1174.80	13/3/95
SBC General(1/4/87)	1249.86	1244.92	1250.57	1250.57	25/3/96	879.58	13/3/95
Taiwan							
Weighted Pr(30/6/66)	5043.11	5092.92	5067.51	7051.49	5/1/95	4503.37	14/8/95

US INDICES

INDEX FUTURES

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, March 27, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Hsg Loan	26.2m	7	-30
Mitsubishi Hvy	16.7m	932	+23
Mitsui Eng & Bld	14.9m	319	+15
TEC Corp	14.8m	665	+100
Shinko Electric	12.1m	984	-5
Nippon Stl Corp	11.1m	363	+6
Keisei Elect Ry	10.7m	1200	+40
NKK Corp	9.0m	304	+2
Fuji Hvy Inds	6.9m	490	+10
Kawasaki Hvy Ind	6.3m	552	+11

4 pm close March 27

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

[illegible]

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FINANCIAL TIMES

Continued on next page

هكذا من الأصل

4 pm close March 27

NYSE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
29	11¼	Schwab(C)	0.16	0.7	25	4258	25¾	24½	24½	-⅜
28⅞	20⅞	SchwMaud			14	2340	27½	26	27	+1¼
24⅞	11⅞	SciAtl	0.06	0.3	40	1458	18⅝	18	18⅛	-⅛
20	15⅛	Scotman x	0.10	0.6	11	73	17⅞	17¾	17¾	-⅛
43½	26⅞	Scripps	0.52	1.2	25	208	42¾	42	42⅝	+⅝
21½	13⅞	ScuddrNAsf x	0.02	0.1		101	16⅝	16½	16½	
11⅞	8⅝	ScuddrNEuF	0.16	1.4		390	11¾	11⅝	11⅝	
20	13⅞	SeaCnB	0.70	4.2	1	z100	16¾	16¾	16¾	
16⅞	14⅝	SeaCt 4625	1.46	9.5		z100	15⅛	15⅜	15⅜	
57¼	23⅝	S'gate				1813132	54¼	52	52⅞	+1⅛
38½	25⅝	Seagrm x	0.60	1.8	22	3186	34	32¾	33⅛	-⅝
22⅞	15¾	Seagull En			119	5898	u22⅞	21½	22⅛	+1⅛
35¼	18	Sealed Air			26	820	34¼	33	33½	-⅝
51⅞	30⅞	SearsR	0.92	1.8	13	10037	51	49⅞	49⅝	-⅝
22¼	16⅞	SecCapSBI	1.24	5.7	25	1672	22	21¾	21¾	-⅛
13	10⅞	Seligm Sel x	0.84	6.8		61	12½	12⅜	12⅜	
38¼	13⅝	Sensormat	0.22	1.1	74	1409	21⅛	20⅞	20⅞	-⅛
35⅝	21⅞	SequaA	0.60	1.8	58	22	34	33⅞	34	-⅛
41⅝	23	SequaB	0.50	1.2	71	z100	41	41	41	
49¼	26¼	ServCp	0.48	1.0	27	1796	49⅛	48½	48¾	+⅛
33½	21½	SvMstr	0.96	3.0	14	416	31¾	31½	31¾	+⅛
7⅞	4⅛	SevnMach			10	629	5⅜	5¼	5⅜	
57½	22½	SGSThm			8	1820	36⅝	36	36	-⅝
17⅞	10⅝	Shaw Ind	0.30	2.6	24	2129	11⅝	11¼	11⅜	-⅜
13⅝	7⅝	Shelby Wil	0.28	2.6	14	11	10⅞	10¾	10⅞	
83½	64¼	ShellTr	3.30	4.1	17	738	80½	80	80	-½
45⅞	32	SherW	0.70	1.6	18	1153	44	43¾	43⅞	
13½	7⅞	Shoneys			15	337	9	8⅞	9	+⅛
29⅞	13½	Showboat x	0.10	0.4	29	616	24¾	24½	24⅝	-⅛
24⅝	18½	Sierra Pac	1.16	4.8	12	724	u24⅝	24½	24½	-⅛
8⅛	5¼	SignalApp			1	4	6⅝	6⅝	6⅝	
36⅝	17⅞	Signet Bnk	0.80	3.2	11	956	25¼	25	25⅛	
45⅝	21¼	SiliconGr			18	8448	25¼	24½	25⅛	-⅛

- T -

- U -

- V -

- W -

- X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close March 27

NASDAQ NATIONAL MARKET

4 pm close March 27

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

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- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

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AMERICA

Tech stocks broaden rebound, lift Nasdaq

Wall Street

Technology shares staged a broadly based rebound from recent weakness in midday trading yesterday, helping the Nasdaq composite to rise, while other indices were mostly flat, *writes Lisa Bransten in New York.*

In early afternoon trading the Nasdaq composite was 9.56 stronger at 1,097.91 and the Pacific Stock Exchange technology index was 1.6 per cent higher. On Tuesday the Nasdaq managed only a 1.26 rise as a limited group of tech shares regained their footing, while yesterday's gains were more broadly spread through the computer-technology and biotechnology sectors.

Among biotechnology issues, Genzyme, which had fallen $11¼ on Monday and Tuesday, added $1⅞ at $53⅞ and Chiron, off $9⅞ in the previous two sessions, rose $6⅝ to $100.

Chip stocks were stronger, with Intel up $⅞ at $57, Applied Materials rising $1¼ to $36⅝ and Novellus Systems adding $1¼ at $46¼.

A $2⅝ jump to $113 for IBM gave some support to the Dow Jones Industrial Average, but the blue chip index was still off 12.65 at 5,657.98 at 1 pm.

The Standard & Poor's 500 was 0.11 softer at 652.86, while the American Stock Exchange composite firmed 0.68 to 569.39. NYSE volume was 224m shares.

The bond market was mostly weaker in spite of a drop in February's industrial production figures. Mr Alan Greenspan, chairman of the Federal Reserve, worried the markets yesterday with comments suggesting that wages may be already beginning to rise.

Analysts said that rising wages could be bad for both Treasury and equity markets if they led to inflationary pressures that would erode the value of bonds or lower corporate profits which would impinge on share values.

In individual shares, Morgan Stanley, the US investment bank, added $1⅝ or 3 per cent at $52⅞ after reporting that first-quarter earnings rose 45 per cent from last year's fourth quarter. The investment group also disclosed that it had bought back $350m worth of its shares in the quarter and that its board had authorised more share buybacks.

Some drugs companies were lower on news that the Federal Trade Commission was investigating whether there was collusion in setting prices in the US. Schering-Plough lost $1⅜ at $58⅝, Warner Lambert fell $3⅞ to $101⅞, Pfizer declined $1⅞ to $87⅝ and Bristol Myers Squibb receded $1 to $86.

Canada

Toronto was higher in midsession trade, with Inco's long awaited bid for Diamond Fields Resources at the centre of investors' attention.

The TSE 300 composite index stood 16.39 up by noon at 5,001.60 in hefty volume of 46.2m shares.

Inco, the nickel giant, gave up C$3⅜ to C$43⅞ after Tuesday's announcement that it would offer C$43.50 a share for Diamond Fields, topping last month's friendly offer of roughly C$36.40 a share from Falconbridge, which closed C$⅜ firmer at C$29.

Diamond Fields picked up C$3⅛ to C$39⅞ in active trade.

SOUTH AFRICA

Johannesburg's gold shares *finished slightly easier on profit-taking,* in spite of a firm bullion price and a weak rand. Analysts said golds had proved a disappointment in view of the slide in the rand, battered by renewed political rumours and spooked by fears of trouble at today's Zulu march through Johannesburg. The overall index moved ahead 29.4 to 6,770.4 as industrials picked up 22.3 to 8,313.1. Golds softened 0.2 to 1,857.2.

EUROPE

Polygram celebrates its Oscar awards

Dutch companies were in the limelight for the third day in succession as Euro-strategists suggested that consumer-oriented companies could have a better year in 1996.

Polygram rose Fl 4.10 to Fl 102, celebrating Oscar awards for two of the group's films this week. Meanwhile, Philips, its parent company, tried to raise investors' spirits following an 11 per cent drop in the shares on Monday. It said that current weakness in semiconductor demand was merely a blip in a long term growth market, but after rising to Fl 60.50 at best, the shares ended just 30 cents up at Fl 59.

AMSTERDAM's AEX index approached its all-time high, climbing 3.53 to 529.11. Still in the consumer area, the brewer Heineken pushed to another record peak, rising Fl 5.90 to Fl 355.20, after Fl 356.50, and extending a strong run in the aftermath of its 1995 results. However, the food group Nutricia saw profit-taking and receded Fl 5 to Fl 158.50.

FRANKFURT registered a new record intra-day peak of 2,527.28, with the Dax index supported by a higher dollar, a rise in bonds and the overnight gain in the Dow. Neither the Dow, nor bunds, were particularly helpful in the afternoon, which also had to field flat profits from Deutsche Bank, but the key index still finished 18.03 stronger on the day at 2,523.81.

Turnover rose from DM9.4bn to DM10bn. Deutsche Bank peaked at DM76.98 ahead of parent net profits up from DM1.575bn to DM1.597bn, fell to DM75.83 thereafter, and finally recovered to DM76.45, up 11 pfgs on the day, as analysts decided to suspend judgment until after today's results conference.

The Big Three chemicals were in favour again. BASF joining Bayer and Hoechst in gains of more than a percentage point as the restructuring theme supported sentiment.

In carmakers, Volkswagen rose DM6.15 to DM544.65 ahead of today's results; and, in utilities, a higher oil price combined with a 24 per cent rise in net profits left Veba 95 pfgs up at DM71.90.

PARIS saw profits in a couple of financials, and elsewhere, as specific news lifted individual shares, and hopes for a Bundesbank rate cut today supported the general market.

The CAC-40 index rose 22.56 to 2,030.51 in turnover of FFr5.07bn. Crédit National moved ahead FFr17.90 or 4.6 per cent to FFr404 on net attributable profits up from FFr67m to FFr463m. and Paribas climbed FFr12.20 to FFr307 although Société Générale denied that it was planning a bid for the company.

A dividend increase took Total, the oil group, up FFr6 to FFr351.30; Vallourec, the steel tube maker, put on FFr5.50 at FFr338 on a resumed dividend, and an ambitious profits target; and Air Liquide closed FFr22 higher at FFr909 on the prospect of improving performance as a slow starting 1996 moves on.

At the top end of the consumer goods market, Hermes International reported a rise of more than a third in 1995 profits, and the shares finished FFr49 ahead at FFr1,300.

ZURICH was higher on a firmer dollar and stronger domestic bond market, and the SMI index moved forward 12.9 to 3,671.0.

Swissair's Crossair subsidiary rose SFr30 to SFr130 as the regional airline sought to catch up with recent sharp rises in the parent company's shares. Swissair gave up SFr11 to SFr1,249.

Elektrowatt was up SFr16 at SFr449 and Motor Columbus rose SFr160 to SFr2,340 on renewed rumours of a merger between the two companies.

Zurich Insurance gained SFr3 at SFr347 on a rise in 1995 net profits at its Zurich Life insurance unit. Swiss Re fell SFr7 to SFr1,334, and Winterthur was down SFr2 at SFr798 as UBS and other banks began downgrading the sector.

Nestlé retreated SFr7 to SFr1,343 on expectations that it would announce lower 1995 profits today.

MILAN was distracted from further worries over the uncertain political outlook by unexpectedly good figures from Pirelli and the market finished near its high for the day, having erased early declines. The Mibtel index picked up from a low of 9,053 to finish 64 higher at 9,205, but the Comit index lost 4.04 at 572.21.

Pirelli, the tyres and cables group, jumped L65 to L2,187, after a high of L2,220, as the 1995 consolidated net profits came in higher than analysts' estimates.

Companies within the de Benedetti group were weak on news that Sony expected a slowdown in US sales of personal computers. Cir, the holding company, receded L7.2 to L858.7, after a low of L850, while Olivetti was L10.8 weaker at L738.3 and Cofide was down L5.9 at L620.7. Olivetti denied a report that it was negotiating with France's Machines Bull to transfer its systems and services division into a joint venture, while Cir and Cofide said the approval of 1995 results would be postponed, due to delays in receiving information on results from Olivetti and other units.

The banks were mostly firmer as some of the initial shock from the news of the terms of a government-led bailout plan for the Banco Di Napoli wore off as the session progressed. Napoli remained suspended.

Written and edited by William Cochrane and Michael Morgen

FT-SE Actuaries Share Indices

Mar 27	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1624.90	1624.78	1624.36	1625.46	1626.59	1625.87	1626.47	1626.26
FT-SE Eurotrack 200	1679.12	1678.35	1678.02	1678.71	1682.14	1681.34	1680.77	1680.39
	Mar 26	Mar 25	Mar 22	Mar 21	Mar 20			
FT-SE Eurotrack 100	1618.17	1622.07	1612.89	1610.28	1605.30			
FT-SE Eurotrack 200	1670.20	1679.88	1665.18	1679.85	1677.90			

Base value 1000 (26/10/90); High/day: 100 - 1627.11; 200 - 1683.28 Low/day: 100 - 1623.84 200 - 1677.61. † Partial

ASIA PACIFIC

Nikkei at 21-month high, Karachi up 3.1%

Tokyo

Foreign and domestic institutions bought blue chip cyclicals, and the Nikkei average rose 1.5 per cent to the highest level since June 1994, *writes Emiko Terazono in Tokyo.*

The 225 index gained ground for the third consecutive day, advancing 315.21 to close at the day's high of 21,329.98, after a low of 20,992.36. Foreign companies bought steels and shipbuilders, and futures-linked dealer arbitrage buying lifted the broad market, which also saw the return on the buy side of domestic investors who, until last week, were leading sellers.

Volume totalled 530m shares, against 501m. The Topix index of all first section stocks rose 15.97 to 1,619.63 and the Nikkei 300 gained 3.11 at 303.51. Advances led declines by 843 to 252, with 115 issues unchanged.

In London the ISE/Nikkei 50 index eased 0.55 to 1,419.03.

Nippon Housing Loan, the largest housing loan company, fell Y30 to Y7 on the announcement by its management that rehabilitation efforts were at an end. Officials blamed public anger with the jusen, or housing loan companies, for the move. The stock was the most actively traded of the day.

Tokyo Broadcasting System, the national network, declined Y50 to Y1,600. Here, public ire spread over recent revelations that the network's employees had shown an interview with a lawyer campaigning against the cult which spread nerve gas in Tokyo last year to cult members.

Shipbuilders were higher on buying by foreign investors. Mitsubishi Heavy Industries rose Y23 to Y932 on active buying, while Mitsui Engineering and Shipbuilding, seen as a laggard compared to MHI, advanced Y16 to Y319.

Higher gold prices supported mining stocks. Sumitomo Metal Mining climbed Y40 to Y1,060 and Mitsubishi Materials Y27 to Y592.

Sumitomo, the trading house, added Y30 at Y1,110 on reports of its plans for a copper and gold mine project with a US company.

In Osaka, the OSE average put on 154.80 at 22,313.23 in volume of 359.6m shares.

Roundup

Speculative demand for PTCL and Hub Power led KARACHI 3.1 per cent higher, but analysts cautioned that the gains were likely to be fleeting in the absence of genuine investment buying.

The KSE-100 index closed 45.77 ahead at 1,328.61. PTCL rose Rs1.70 to Rs32.45 and Hub Power Rs1.45 to Rs26.45, before Rs28 in curb trade on news that Britain's National Power, Hubco's largest investor, had been top bidder for a 26 per cent stake in the state owned Kot Addu power plant.

BOMBAY advanced on selective purchasing by foreign institutions and also helped by some short-covering ahead of tomorrow's weekly settlement. The BSE-30 index rose 67.07 or 2.1 per cent to 3,309.85.

Telco, the truckmaker, jumped Rs14 to Rs440 as SBI Capital Market forecast that the shares would continue to outperform the industry.

TAIPEI fell 1 per cent as profit-taking swept the session in the final hour. The weighted index closed 49.81 lower at 5,043.11 in active turnover of T$80.4bn, dipping for the first time in 13 sessions.

The government's market stabilisation fund, which had been buying heavily in the weeks ahead of the recent election, was inactive yesterday.

MANILA lost 1.3 per cent on moderate selling of blue chips, led by PLDT which shed 40 pesos to 1,415 pesos on the heels of a $2.25 fall in its ADRs on Wall Street overnight.

The composite index lost 37.38 at 2,834.41. All sectors closed weaker with the exception of mining issues, which were bought by local investors.

HONG KONG was supported by late buying on hopes of positive blue-chip earnings reports today. The Hang Seng index firmed 82.10 to 11,066.57 but turnover shrank to HK$4.1bn.

Among index stocks reporting today, Cheung Kong rose HK$1.25 to HK$55.25 and its Hutchison associate gained 60 cents at HK$49.

Henderson Land rose HK$1 to HK$55.75 after reporting positive results late on Tuesday.

SINGAPORE's Amcol fell 4 cents to S$3.62 in 12m shares dealt on a one-for-two rights issue to raise some S$300m. The Straits Times Industrial index slipped 15.14 to 2,399.65.

KUALA LUMPUR was broadly weaker as investors took profits ahead of the release of the Bank Negara annual report. The composite index shed 10.49 to 1,164.0.

WELLINGTON saw Telecom lose 14 cents at NZ$6.50 after Australia's Telstra entered the New Zealand market on Tuesday, with the intention of taking 10 per cent of the New Zealand telecommunications market within three years.

The NZSE-40 index declined 14.51 to 2,150.62.

Buenos Aires loses 1.3 per cent

Buenos Aires was weak in midsession trade as a mixture of profit-taking and higher US long bond yields continued to determine the market's direction. The Merval index lost 6.76 or 1.3 per cent at 512.13 as investors continued to cash in on gains made during the 5.6 per cent rally in the four sessions to Monday.

SAO PAULO was weak in lunchtime trade on worries about the outlook for the economy as congressional opponents of President Fernando Henrique Cardoso continued to press for a full-scale investigation of the banking sector. The Bovespa index was 85 lower at 49,732.

MEXICO CITY was unable to extend its recent upward run in midday trade in spite of the larger than expected decline in interest rates on the bellwether 28-day *Cetes*, or T-bills, on Tuesday. The IPC index was down 25.25 to 3,096.36 as Bear Stearns said that its new economic assumptions for greater peso stability, lower inflation and lower economic growth had not changed its bearish outlook on the market.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms Mar. 22 1996	% Change over week	% Change on Dec '95	Local currency terms Mar. 22 1996	% Change over week	% Change on Dec '95
Latin America	(246)	496.88	+3.3	+6.3			
Argentina	(31)	815.51	+3.7	+1.8	500,383.71	+3.7	+1.8
Brazil	(68)	340.51	+3.0	+11.5	1,257.23	+2.9	+13.2
Chile	(43)	661.70	-0.3	-7.6	1,140.47	-0.3	-6.5
Colombia[1]	(15)	579.23	+1.7	-3.1	1,074.86	+1.8	+2.4
Mexico	(65)	501.35	+6.6	+10.6	1,633.52	+6.6	+8.5
Peru[2]	(21)	196.92	-1.9	+0.9	285.83	-2.0	+2.9
Venezuela[3]	(5)	377.56	+12.8	+12.9	4,480.89	+6.3	+71.7
Asia	(631)	253.75	+1.9	+9.3			
China[4]	(23)	61.39	+1.3	+13.5	64.57	+1.4	+13.6
South Korea[5]	(145)	123.08	+1.5	-2.3	126.85	+1.9	-1.2
Philippines	(35)	277.37	+2.2	+6.9	351.20	+2.3	+6.8
Taiwan, China[6]	(83)	112.36	+3.5	-0.4	115.17	+2.9	-0.3
India[7]	(76)	88.36	-2.8	+10.0	108.42	-2.2	+8.0
Indonesia[8]	(44)	121.36	+1.3	+10.6	154.12	+1.4	+13.1
Malaysia	(123)	310.81	+2.2	+14.6	291.90	+2.4	+14.8
Pakistan[9]	(25)	255.20	-6.5	+6.2	401.17	-6.5	+6.4
Sri Lanka[10]	(5)	123.17	-4.5	+18.4	144.27	-4.5	+19.3
Thailand	(72)	381.13	+3.6	+1.4	382.28	+3.8	+1.7
Euro/Mid East	(238)	151.54	-0.0	+7.0			
Greece	(47)	260.44	-0.7	+7.8	425.50	-1.0	+9.9
Hungary[11]	(8)	143.98	-5.8	+46.3	248.24	-5.4	+53.4
Jordan	(8)	180.19	-0.9	-2.4	268.99	-0.9	-2.4
Poland[12]	(22)	606.40	-0.9	+42.2	884.91	-0.4	+48.8
Portugal	(26)	124.51	+0.1	+7.6	130.52	-0.2	+9.8
South Africa[13]	(63)	256.59	-0.3	-0.6	207.79	-0.5	+7.0
Turkey[14]	(54)	157.23	+1.9	+50.5	5,192.28	+4.1	+73.7
Zimbabwe[15]	(5)	327.93	+1.6	+19.4	463.75	+2.4	+23.0
Composite	(1117)	295.97	+1.8	+7.3			

Indices are calculated at mid-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1993; (13)Dec 31 1992; (14)Aug 2 1993; (15)July 2 1993.

US pension funds have been increasing their asset allocations to the world's emerging markets, according to research by Kleiman International, the independent research group based in Washington, writes John Pitt.

According to preliminary findings, Kleiman estimates that the average allocation to emerging markets by US pension funds, as a percentage of their total assets, currently stands at 3.75 per cent, varying from 0.5 per cent to 9 per cent. Ms Elizabeth Morrissey, Kleiman's managing partner, says that US pension funds probably account for some 7.5 per cent of the total emerging market capitalisation, which currently stands at just over $2,000bn.

She suggests that pension fund managers now consider emerging market equities (their exposure to debt, in contrast, remains small, with many considering it still "too risky") as an acceptable asset class, rather than as an "opportunistic" short term and high return investment. "The fact that the average allocation to emerging markets is rising among this group of traditionally conservative investors," she says, "reinforces the argument that emerging markets investment is more than a 'temporary fad'. . . . However, the increased flow of funds to emerging markets in recent months has not been fuelled just by a sudden influx of pension fund money, as these groups tend to make long term decisions and are little influenced by month-to-month developments."

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MARCH 26 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div Yield	MONDAY MARCH 25 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (81)	199.89	0.3	194.67	134.24	153.37	172.01	0.5	4.04	199.20	193.64	133.63	153.03	171.24	202.74	158.93	160.15
Austria (24)	185.28	0.2	180.45	124.43	142.16	141.99	0.1	1.59	184.86	179.71	124.01	142.01	141.86	199.28	169.11	183.85
Belgium (33)	205.18	-0.1	199.83	137.80	157.42	153.47	-0.6	4.01	205.05	200.32	138.24	158.30	154.38	218.81	174.36	171.85
Brazil (28)	155.49	-0.7	151.44	104.43	119.29	282.70	-0.7	1.73	156.52	152.16	105.00	120.25	284.59	170.25	106.08	121.55
Canada (101)	157.87	0.5	153.76	106.03	121.13	155.89	0.8	2.41	155.93	152.56	105.28	120.56	154.72	158.71	132.37	134.44
Denmark (33)	293.96	0.6	286.29	197.42	225.54	227.85	0.6	1.83	291.76	283.62	195.73	224.14	226.44	308.17	252.41	257.44
Finland (24)	183.01	-1.2	178.23	122.91	140.41	176.76	-1.3	2.07	185.27	180.11	124.29	142.33	179.07	276.11	171.12	172.50
France (98)	190.60	0.1	185.62	128.00	146.23	151.07	0.1	3.11	190.31	185.01	127.67	146.21	150.99	191.17	167.70	171.34
Germany (60)	173.63	-0.4	169.12	116.62	133.23	133.23	-0.5	1.94	174.34	169.48	116.96	133.93	133.93	174.38	142.28	142.28
Hong Kong (59)	432.27	-1.2	420.99	290.31	331.66	428.12	-1.2	3.37	437.59	425.40	293.56	336.18	433.34	431.10	323.67	341.56
Ireland (16)	258.52	0.1	251.77	173.62	198.35	232.16	0.3	3.48	258.26	251.06	173.25	198.40	231.44	265.00	210.22	210.22
Italy (59)	70.61	-2.6	68.78	47.42	54.17	62.75	-2.0	2.18	72.46	70.45	48.62	55.68	64.43	82.71	67.09	67.56
Japan (482)	152.37	0.1	148.39	102.33	116.90	102.33	0.2	0.75	152.17	147.93	102.08	116.90	102.08	164.82	127.78	140.18
Malaysia (107)	557.44	0.2	542.89	374.37	427.69	543.52	0.1	1.98	556.54	541.02	373.36	427.55	545.17	561.96	426.77	470.20
Mexico (18)	1139.97	1.2	1110.23	765.60	874.66	9985.51	1.1	1.40	1126.01	1152.63	758.64	911.15	9783.09	1237.14	790.84	790.84
Netherland (19)	285.05	0.0	277.61	191.43	218.70	214.81	-0.2	3.22	285.08	277.14	191.25	219.01	215.17	285.96	228.30	228.30
New Zealand (15)	84.16	-0.7	81.97	56.52	64.57	65.36	-0.2	4.21	84.71	82.35	56.83	65.08	65.48	85.49	72.67	72.67
Norway (33)	238.19	-0.3	231.97	159.96	182.75	207.53	-0.4	2.40	238.96	232.30	160.31	183.57	208.42	243.79	205.19	205.19
Singapore (44)	442.74	-0.3	431.19	297.34	339.68	298.67	-0.3	1.39	443.93	431.61	297.85	341.09	299.51	463.51	350.19	350.19
South Africa (45)	389.23	0.0	379.08	261.40	298.64	335.36	0.2	2.51	389.25	378.40	261.14	299.04	334.77	437.78	329.21	332.35
Spain (37)	171.05	-0.4	166.60	114.88	131.25	160.77	-0.5	3.40	171.70	166.92	115.19	131.91	161.56	175.68	124.26	124.26
Sweden (48)	248.50	-1.1	[illegible]	[illegible]	[illegible]	[illegible]	-1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (39)	251.36	-0.4	244.80	168.81	192.85	185.62	-0.5	1.53	252.34	245.31	169.29	193.86	186.50	252.34	177.75	177.75
Thailand (46)	179.12	-0.9	174.45	120.30	137.43	175.37	-1.0	1.86	180.78	175.72	121.26	138.86	177.14	193.95	154.53	159.12
United Kingdom (205)	226.05	-0.7	220.15	151.81	173.44	220.15	-0.5	3.95	227.63	221.29	152.71	174.88	221.29	229.50	202.57	203.31
USA (631)	266.15	0.4	259.21	178.75	204.21	266.15	0.4	2.17	265.13	257.74	177.87	203.69	265.13	269.11	204.49	204.70
Americas (778)	242.90	0.4	236.56	163.13	186.36	204.16	0.4	2.17	241.98	235.21	162.32	185.88	203.36	245.54	187.12	187.38
Europe (726)	205.65	-0.5	200.28	138.11	157.78	178.08	-0.5	3.10	206.71	200.95	138.67	158.80	178.95	207.01	173.19	173.19
Nordic (135)	295.37	-0.7	[illegible]	[illegible]	[illegible]	[illegible]	-0.7	2.36	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (834)	165.85	0.0	161.52	111.38	127.25	114.24	0.1	1.16	165.62	161.19	111.24	127.39	114.11	171.87	148.96	148.69
Euro-Pacific (1560)	182.33	-0.2	177.57	122.46	139.89	136.46	-0.2	2.05	182.75	177.66	122.60	140.40	136.69	183.39	158.82	158.82
North America (732)	259.46	0.4	252.69	174.26	199.07	258.76	0.4	2.18	258.44	251.24	173.38	198.55	257.74	262.26	200.12	200.54
Europe Ex. UK (521)	189.17	-0.4	184.23	127.04	145.14	153.32	-0.5	2.49	189.98	184.67	127.44	145.93	154.04	189.98	153.36	153.56
Pacific Ex. Japan (352)	290.26	-0.4	282.71	194.95	222.72	252.78	-0.4	2.97	291.51	283.38	195.56	223.94	253.78	293.58	233.90	233.90
World Ex. US (1782)	183.74	-0.2	178.95	123.40	140.98	142.74	-0.1	2.10	184.11	178.98	123.51	141.44	142.83	184.71	159.65	159.65
World Ex. UK (2178)	207.43	0.0	202.02	139.31	159.15	175.92	0.1	1.82	207.38	201.40	139.03	159.22	175.68	207.71	170.41	170.41
World Ex. Japan (1901)	240.55	0.0	234.27	161.55	184.56	226.74	0.0	2.54	240.49	233.78	161.33	184.75	226.64	242.17	192.43	192.43
The World Index (2383)	209.16	0.1	203.70	140.47	160.48	178.27	0.1	2.13	209.05	203.23	140.25	160.60	178.12	209.73	173.26	173.26

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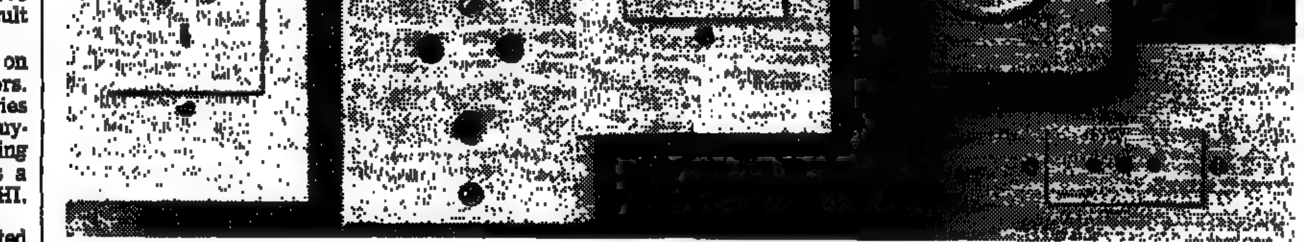

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JAPANESE FINANCIAL MARKETS

Tentative hopes after a black year

The gloom is lifting slightly after a year marked by trouble on the Tokyo stock market, bank failures and plummeting land values, reports Gerard Baker

There is a palpable spring-time feeling in Tokyo's anxious financial markets that the worst might really have passed.

No government official or commercial banker confesses publicly to such optimism, but the basis for it is evident. A gentle economic recovery appears to be stirring, helped by a falling yen and policy stimulus. The stock market has returned to a level seen only occasionally in the last few years and even Japan's blighted banks hint timidly that their asset quality problems may soon be over.

The caution is perhaps more understandable than the confidence. In the last few years there have been as many false dawns for Japan and its financial institutions as there have been changes of government.

But there is at least one argument for concluding that Japan may have touched the bottom. While no-one expects a return to the bubble economy of the late 1980s, things could hardly get worse than in 1995. The last year has been truly the year of living dangerously for the country's financial institutions.

The trauma for the banks began on a sultry morning last July. The stop-go economic recovery of the last few years had again appeared to collapse in the early summer because of the soaring yen and a bout of deflation. The stock market quickly fell to its lowest level in nearly three years at the beginning of July. Since the capital and profitability of most Japanese financial institutions depend totally on the level of stock prices, confidence in banks began to slide.

These new blows came as banks continued to struggle under the self-imposed burden of a mountainous pile of non-performing loans. Reckless lending to the property sector in the late 1980s was to blame – and the fall in land prices that precipitated the problem shows no sign of ending.

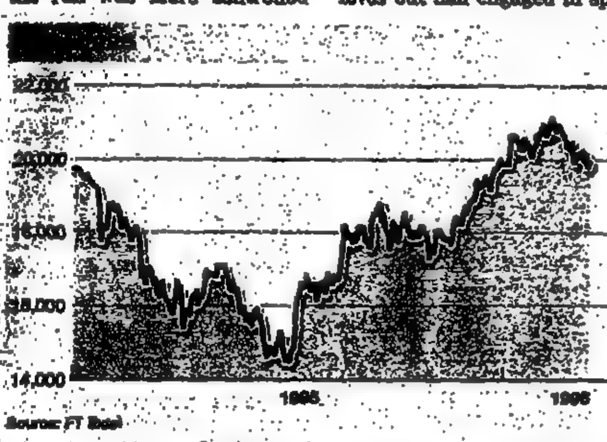
All this talk of renewed crisis made ordinary depositors nervous. The last straw was a series of national newspaper reports about potential insolvencies at one or two large deposit taking institutions. On the morning of July 30, the Japanese version of a run on a bank started at Cosmo credit union, the largest institution of its kind in Tokyo, when customers lined up outside branches to withdraw their money. By the end of the day Y60bn had been removed and the company suspended operations.

Throughout the next month, depositors at other banks wondered who would be next and began shifting funds out of potential failures. On August 31 two banks went the same way as Cosmo. At Kizu credit union in Osaka, panic erupted as customers fought to withdraw cash. At Hyogo Bank, headquartered in nearby Kobe, the run was more controlled but no less devastating. By the end of the day, both had gone under and Hyogo became the first listed bank in 50 years to fail.

As the authorities attempted to contain the crisis, within weeks another shock hit the system. Daiwa Bank, one of Japan's big city or commercial banks, revealed it had lost more than $1bn as a result of probably illegal and certainly incompetent bond trading by a dealer in New York. To compound the error, the bank had known about the problems at least two months before it revealed them. Worse still, the finance ministry was forced to confess that it too had known about the loss six weeks before US authorities were told.

Japanese banks as a group found themselves under intense pressure. In international money markets, foreign banks raised the interest rate at which they were prepared to lend to them. The so-called Japan premium reached a high of 80 basis points in November, following the US authorities' decision to expel Daiwa.

On top of all this the government was still trying to forge some kind of agreement on how to end one of the largest headaches facing the financial system – the liquidation of the country's near-bankrupt housing loan companies. These had been founded by banks in the 1970s but had engaged in speculative lending in the 1980s property boom and by last year almost two-thirds of their total loan book was nonperforming. But there was disagreement on how to apportion the loans between their two main groups of creditors – the banks that had founded them and the country's farming co-operatives.



Source: FT Extel

Against this background rumours spread about the health of several large financial institutions.

Meanwhile the rest of the financial sector was also struggling to stay afloat. Life assurers watched as the value of their investments plummeted under a dual onslaught from the falling stock market and the rising yen. Stockbrokers' performance continued to languish.

The maelstrom highlighted all that was wrong with Japanese financial institutions. Obsessed with size, over-dependent on tumbling asset prices and under-capitalised, they had always looked like superannuated sumo-wrestlers.

Now the behaviour of Daiwa Bank and the finance ministry had revealed a systemic aversion to openness that hinted at perhaps even worse things beneath the faded exterior. The world watched warily as a long-feared meltdown seemed imminent.

But it never came. For once, the Japanese authorities proved equal to the crisis. In a desperate effort to revive the economy and pump life into the financial system, the official discount rate was cut to an all-time low of 0.5 per cent. The government then launched its largest ever fiscal lifeboat for the economy – Y14,000bn – in public works projects. An unprecedented wave of central bank intervention turned the tide against the yen, which by the end of the year had fallen by 20 per cent from its peak in the summer.

And, sure enough, in the midst of the turmoil, the economy really did begin to emerge from recession. In the last three months of 1995 output grew at an annualised rate of almost 4 per cent, the fastest for nearly five years.

> **A rising stock market is now boosting confidence**

The stock market climbed rapidly. In the first quarter of this year, the recovery has continued, with equity prices now up by almost 50 per cent on last summer. The long-running wrangle over the housing loan companies' liquidation continues to threaten this sunny outlook, but even that looks unlikely to overshadow recovery.

But have the banks and their confrères really escaped from their shackles?

Low interest rates and an economic recovery will undoubtedly restore some ballast to the banks' battered balance sheets. A rising stock market is helping to restore confidence to all financial institutions.

Many other problems remain, but if the experience of similar problems in the US in the last decade is repeated, economic recovery should continue to lift them out of the mire. The danger in all this good news is obvious. Banks, brokers, life assurers, and especially the authorities have not yet addressed the real causes of the year's crises. Those causes have less to do with the day to day levels of stock prices and bad loans and more to do with the nature of the financial system itself.

That system has long been characterised by a regulatory approach that has guided and nurtured its main participants, creating a culture inimical to responsible management. It has rewarded recklessness by underwriting banks' deposits. It has punished innovative risk management.

The finance ministry's guiding role, invented for, and perhaps even well-suited to, an age of closed financial markets and scarce capital resources, is no longer appropriate for the modern Japanese economy.

While economic recovery clears away much of the detritus left by the collapse of the bubble economy, the real problems may go unresolved. If that happens, Japan's financial institutions may spend many more years living dangerously.


Relief at the dollar's slight recovery against the yen: a Bank of Tokyo customer uses an automatic dollar exchanger machine Reuter

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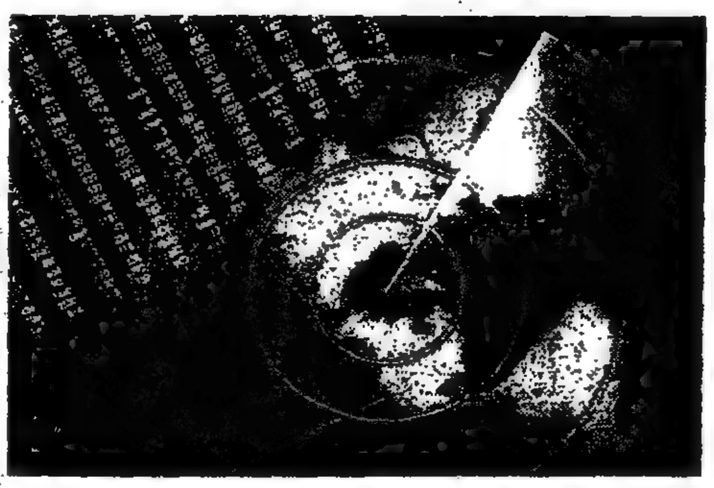

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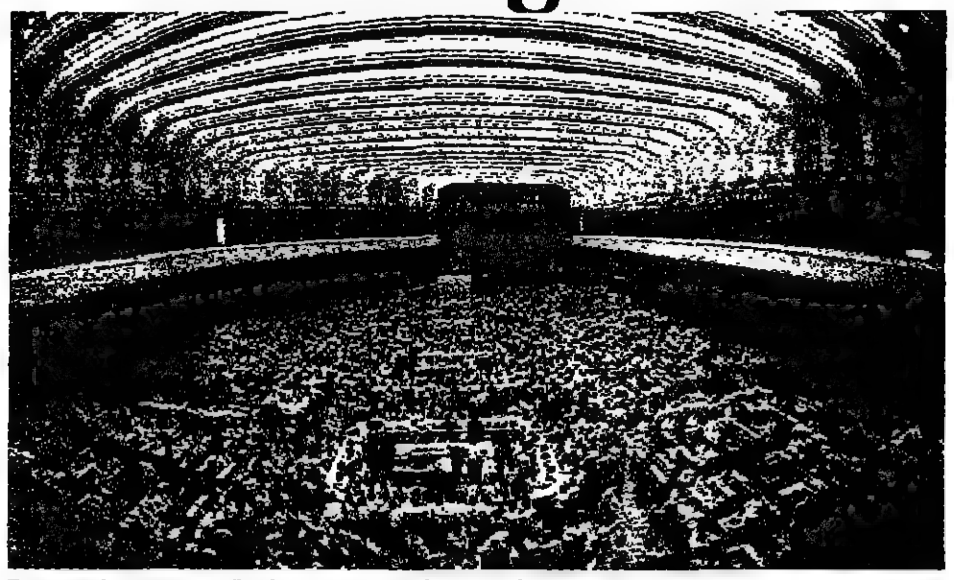
■ TOKYO STOCK EXCHANGE: by Emiko Terazono

A haven for foreign investors

Foreign investors have been moving their funds from the US to Tokyo's calmer waters



Tokyo stock exchange trading floor: room for further expansion

The Tokyo stock market seems to have become the favourite playground for foreign investors. With interest rates likely to remain low in the medium term and volatility on the US stock market rising, foreign money has been flooding into the stock market.

Some investors have started to move their funds out of the US into Japan. During the first week of March, overseas fund managers bought a net Y506.7bn of Japanese stocks, the largest weekly total in two years.

Buying by foreigners is not a new development, however. The Nikkei benchmark index managed to close last year 37 per cent up from its low in July thanks to active buying by US pension funds. A steady currency market also encouraged foreign investments and a net Y3,486bn in overseas funds flowed into Japanese stocks last year while domestic investors sold a net Y3,301bn.

Overseas investors may have further room to buy Japanese shares, say stock market analysts. US pension funds, for instance, hold an average 32.6 per cent of their foreign stock portfolios in Japanese shares against a 40.9 per cent market weighting.

Fund managers are now asking how much of the corporate earnings recovery the stock prices have discounted. Some analysts point out that a further rise may be limited as share prices may have over-discounted an earnings increase and see the index moving sideways while corporate profits catch up. However, Mr Jason James, strategist at James Capel in Tokyo, reckons that share prices have yet to discount the 46 per cent rise in earnings per share for non-financial corporations' earnings per share next business year, and sees the Nikkei index rising to 24,000 by the end of the year.

Another question is when the domestic investors will return. In spite of the positive macro-economic environment with low interest rates, a low yen and a recovery in corporate profits, domestic investors have remained on the selling side during the first three months of the year. Banks, facing massive bad loan write offs, have proceeded to sell their shares to cover their losses, while a decline in premium income has prompted insurance companies to do the same.

The ability of domestic corporate and financial investors to take investment risks in the new fiscal year seems limited. But a historical look at seasonal activity provides some encouragement for stock market investors.

"Domestic players have been net buyers of their market in the second quarter in four of the past five years," notes Mr Peter Tasker, strategist at Kleinwort Benson in Tokyo. The exception was last year, when the Kobe earthquake and the Barings crisis hit the Tokyo markets. However, the stock market is likely to receive support from monetary authorities' efforts to keep interest rates from rising drastically and to provide support for the bond market.

Buying in the new year is expected to come from pension fund managers as deregulation of pension fund investments, which allow a greater portion of funds to be allocated to investment advisers, is likely to increase the amount of new funds flowing into the stock market. Corporate pension funds are dogged with an increasing funding gap, with short-falls of between Y20,000bn to Y40,000bn, and are facing pressure to improve their returns.

Financial authorities are likely to maintain the current monetary policy intact because of the need for capital raising. Funding needs still remain strong and companies are starting to line up to tap the stock market for new funds. Equity linked funding announcements have already hit the market earlier this year, and fears of over-supply in the new business year starting in April could cap any market rally.

In January, Mitsubishi Motors announced the launch of a Y100bn convertible bond issue while NTT Data, a data communications company, raised Y97bn through the offer of 33,000 new shares, the first pure equity offering since 1990.

The revival of the economy has increased the need for funds for capital investments, while Japanese companies face a wave of bond redemptions from the equity-linked financing launched during the financial boom in the late 1980s. As a result of the stock market slump which followed, the conversion of warrant bonds and convertible bonds into equity has been slow and companies are dipping into the market for funds.

The country's banks, which are expected to continue to write off their bad loans, also seem set to dip into the market for capital as the loss of earnings due to the write-offs is expected to result in a decline in their capital ratio requirements. Analysts expect the top 21 banks to raise some Y3,000bn in preferred shares during the new business year starting April, which could affect their stock prices.

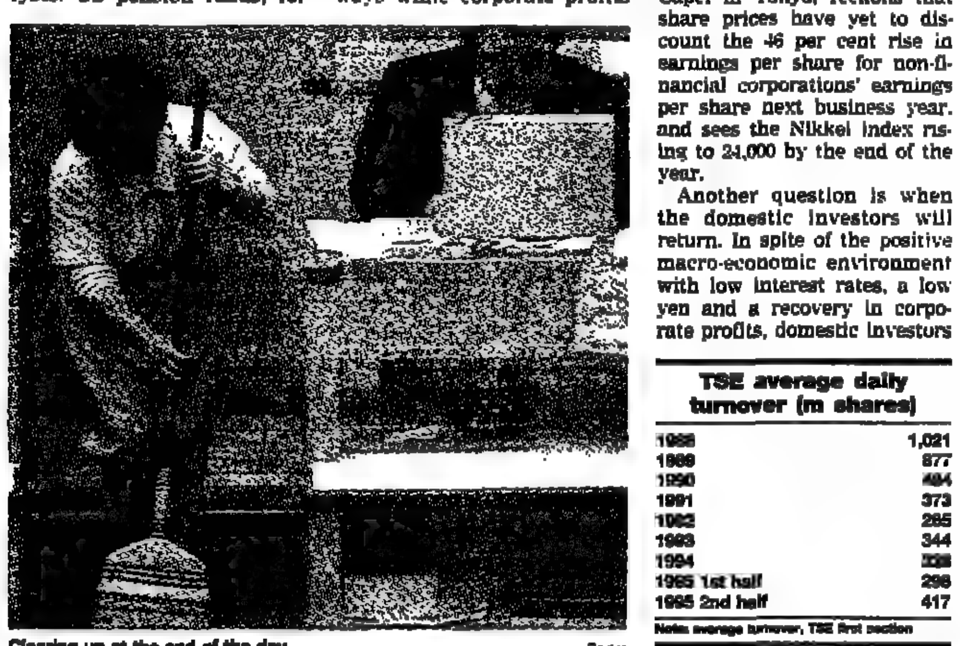
Share offerings of former state-owned companies by the ministry of finance could flood the market with supply. James Capel in Tokyo believes the government could offer some Y500bn in shares of companies including Japan Tobacco, Nippon Telegraph and Telephone and railway groups formerly belonging to Japan National Railways, which have been postponed over the past few years due to sluggish stock market conditions.

For example, the ministry is looking to offer 270,000 shares some time in the new business year in Japan Tobacco, which was listed in 1994. When the shares were floated, fewer than 60 per cent of the shares offered were picked up by investors, and the stock market subsequently plunged due to the over-supply.

Leading exchanges' average daily turnover ($bn)

	April 1995	April 1992
TOKYO	181.3	120.2
LONDON	464.5	290.5
NEW YORK	244.4	166.9
SINGAPORE	105.4	73.8
HONG KONG	90.2	60.3

Source: Bank for International Settlements



Clearing up at the end of the day Reuter

TSE average daily turnover (m shares)

1988	1,021
1989	877
1990	484
1991	373
1992	265
1993	344
1994	[illegible]
1995 1st half	296
1995 2nd half	417

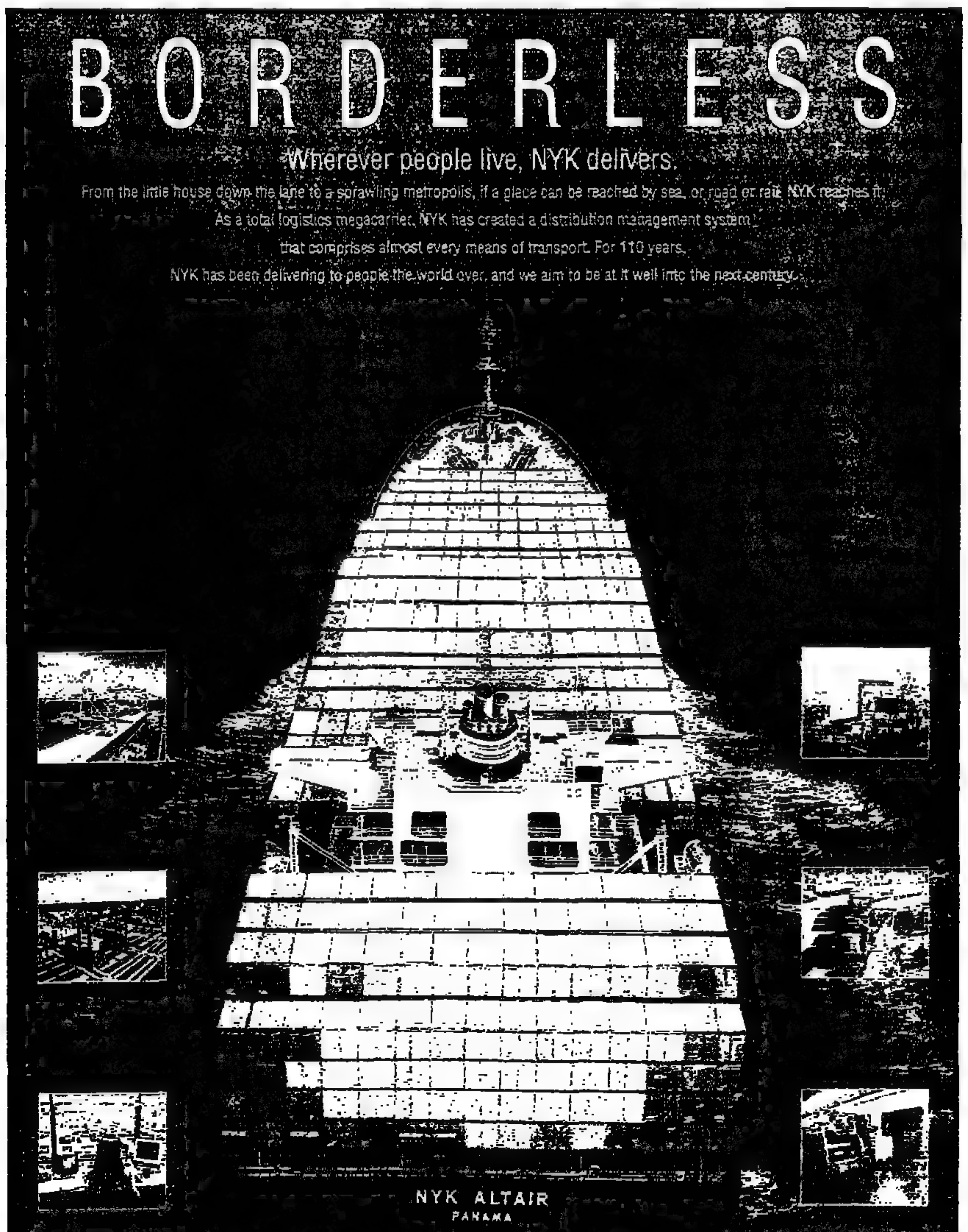
Note: average turnover, TSE first section

Early morning interest at a trading counter Reuter

Trading volume by type of investor (Tokyo Stock Exchange first section) (Y100m)

	Insurance companies	Banks	Investment trusts	Individual corporations	Individuals	Foreigners
1993	−139	29,428	−3,381	−18,792	−11,472	10,113
1994	−3,929	21,653	−15,045	−18,603	−20,331	36,157
1995	−16,586	−1,831	−9,782	−12,930	−2,500	36,792

Source: TSE



■ THE BOND MARKET: by Emiko Terazono

The worst may be over

Looser monetary controls are helping the bond market to retreat from the brink

While horror stories of the burst Japanese bond "bubble" have circulated in international financial markets, an early return to last year's record low levels looks increasingly unlikely.

Sentiment towards the market has turned and the direction for long term interest rates is up rather than down. However, with continued weakness in the bank sector, a fragile economy, and low inflation, the Bank of Japan is expected to maintain its current stance of holding short term rates, namely overnight rates, below the discount rate currently at 0.5 per cent.

Thanks to the easy monetary stance of the central bank, the bond market seems to have taken recent negative news in its stride. Fears of an interest rate rise were spurred by Mr Wataru Kubo, finance minister, who suggested in February that low interest rates were hurting pensioners' incomes. While long term interest rates shot up to a six month high, the bond market seems to have regained its poise.

A look at the Bank's tankan, its quarterly business survey, released in March, provided some explanation for its steady monetary stance. The latest survey indicated that there was only a marginal and lower than expected improvement in confidence among large companies. The number of companies reporting excess inventories and supply increased, while conditions in the labour market remained weak with a growing number of companies reporting a labour surplus.

Although some economists argue that inflation seems to have bottomed out and economic data seem to support a stronger growth outlook, Sanwa Bank believes that the Bank of Japan will maintain its monetary policy intact at least until it releases the next tankan survey in June.

The survey to be conducted in May will also include forecasts for the next quarter, indicating the state of capital investment spending and labour conditions. The Bank may want to wait until the Lyon summit of leading seven industrialised countries in June before it makes any decisions on a shift in monetary policy.

The Kobe earthquake of January 1995: security is relative Reuter

With an increase in imports also holding prices down, the upward pressure on bond yields is expected to be gradual. "Real long term yields in Japan have been fairly steady at around 3.5 per cent for the last decade," says James Capel in Tokyo, which forecasts the bond yield to rise gently, reaching 4 per cent by the end of 1997.

Seasonal factors, however, may depress the bond market in the near term. Regional governments are expected to issue a significant amount of bonds to offset a shortage of tax revenues. In the second quarter Credit Suisse in Tokyo expects some Y6,000bn, up 20 per cent from a year earlier, in regional bonds to be issued in private placements with about half of the amount to be issued in May.

With municipal governments also raising some Y2,000bn, the focus in the near term will be the activity of buyers of regional bonds on the futures markets, and how their hedging activity will affect the underlying cash market.

Meanwhile, the country's financial authorities are trying to implement changes in order to make the bond market more efficient and liquid. Although the Japanese bond market is the second largest in the world, an arcane settlement system and illiquid short and medium term bond markets have been a barrier for active foreign participation. The settlement period for bonds are expected to be shortened this year in line with the Eurobond market where transactions are settled three days after a deal. Settling government bond transactions currently takes seven to 11 business days after the actual deal since the trades are settled on the 5th, 10th, 15th, 20th, 25th and 30th of each month.

Financial authorities are also expected to launch a new repo market replacing the taishaku, or bond borrowing, market and the gensaki market, an over-the-counter repo market, currently used by market participants.

Due to the limited number of settlement dates, in a taishaku transaction a bond is likely to be returned before settlement. Hence a borrower simply paid the lender a fee rather than the whole value of the bond.

However, the Barings fiasco last year raised awareness of the risks involved in such transactions when Baring Securities, which had borrowed bonds from Japanese banks for a fee, collapsed. Although the banks eventually had their losses reimbursed, authorities and banks promptly started a review of the system following the debacle.

Transactions on the gensaki market, meanwhile, are subject to a securities transaction tax, which the seller of a bond – in this case both the borrower and the lender – is required to pay.

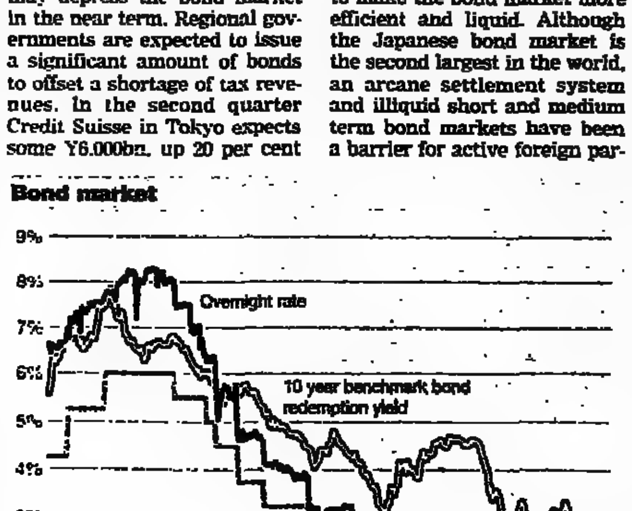
Mr Marshall Gittler at Merrill Lynch in Tokyo believes that the new repo market will be able to handle an estimated Y210,000bn in outstanding government bonds, putting trading on the Japanese government bond market in line with world practices.

Financial authorities also recently launched a new five year government bond futures market.

The market offers investors a hedge against short term bonds, and comes at a time when an increasing number of companies are funding themselves through short term debt including two- to five-year straight bonds.

The new market is expected to increase the number of companies raising funds through short term corporate bonds and is also expected to allow more trading of short term cash government bonds which has been virtually non-existent.

Bond market



Source: Datastream

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■ THE YEN IN ASIA: by William Dawkins

A currency for business

East Asian banks are losing their reserve about using the Japanese yen as a trading currency

YEN-DENOMINATED DEBT OF ASIAN COUNTRIES	Amount ($bn) 1986	1993	As a % of all countries 1986	1993	As a % of GNP 1986	1993
South Korea	7.8	11.2	21.8	32.0	7.4	3.4
Indonesia	12.2	28.0	33.6	40.7	15.9	20.6
Malaysia	5.7	6.1	29.7	37.5	22.0	9.9
Philippines	5.2	11.1	24.0	38.3	17.7	20.1
Thailand	6.0	13.6	40.8	52.1	14.1	11.1
China	8.5	14.8	51.4	21.0	3.0	3.8

Note: Long-term debt only. Source: World Bank, World Debt Tables

The use of the yen in international transactions has increased markedly over the past year, pushed by hitherto unlikely supporters of the Japanese currency, east Asian central banks.

Until last spring's currency turmoil, when the yen shot up to a record Y79.75 against the dollar, the Japanese currency was making sedate progress as international tender and carried much less weight in foreign exchange markets than warranted by Japan's economic power. But since then, Asian countries which have traditionally linked their currencies to the dollar have allowed an increasing correlation with the yen. Over the same period, the Japanese finance ministry has for the first time given formal support to the wider international use of the yen and – again for the first time – called for closer co-operation with other Asian monetary authorities.

Practical examples of closer co-ordination between Asian central banks has ensued, as shown by the recent accord between Japan, Singapore and Hong Kong, under which their central banks would intervene in currency markets on the Bank of Japan's behalf. Talk of an emerging yen bloc, to counterbalance the dollar and D-Mark blocs, has begun to assume a practical, rather than academic, significance.

So what has so suddenly changed to make the greater use of the yen more attractive to Japan as well as to its neighbours?

For years, the main beneficiaries of a more internationally tradable yen were Japan's manufacturers, with few allies elsewhere.

The more Japanese exporters could invoice their foreign contracts in their own perennially volatile currency, the less currency risk they would have to assume. The limit was foreign customers' willingness to take the risk of paying in yen. That is why the proportion of Japan's exports invoiced in yen has grown barely 10 percentage points over the past decade, to nearly 38 per cent, while just under a quarter of imports are denominated in yen. US and German companies have for many years been able to invoice a much larger share of trade in their own more stable currencies.

For years, the Japanese finance ministry (MOF) was unsympathetic to pleas by the ministry of trade and industry that wider foreign use of the yen might help stabilise the currency markets, to Japanese industry's benefit. On the contrary, argued the MOF, wider use of the yen could transfer some control on monetary policy to foreign central banks and could, by increasing demand for the yen, even drive the Japanese currency to new highs, so wrecking industrial export competitiveness.

But now, the balance of advantages has swung the other way. One factor has been Japanese investors' huge foreign exchange losses deriving from Japan's uniquely unbalanced position as the world's largest creditor nation, holding most of its assets in US dollar, the currency of the world's largest debtor nation.

Mr Richard Koo, senior economist at Nomura Research Institute, estimates that Japanese investors suffered a capital loss on their overseas assets of about Y37,000bn from the 1985 Plaza accord to bring down the dollar until the end of 1994, because of the US currency's fall against the yen.

That is nearly as much as Japanese banks' bad debts over the same period and a clear contributor to the instability of Tokyo's financial system. In an attempt to reduce future exchange losses, the biggest Japanese institutional investors have started to build up their holdings of yen. Meanwhile, finance ministry officials have drawn the obvious moral – that Japan's self interest in a less volatile currency is stronger than it has ever been.

Another factor in the finance ministry's policy change is the belief that a move towards a yen bloc might help Tokyo regain some of its loss of competitiveness as an international financial centre. Many argue, on the other hand, that a more effective Tokyo capital market is a prerequisite, not a reward of a more widely traded yen.

Either way, the policy change has been made. It was enshrined in last April's Japanese currency stabilisation package, which stated that "from the standpoint of promoting the yen as an international currency and stabilising foreign exchange markets, Japan should work to establish close co-operative relations with the monetary authorities of other Asian countries".

The forces pushing other Asian monetary authorities towards greater use of the yen have been even deeper and are potentially more significant. Until recently, a strong yen suited Japan's Asian neighbours because it gave their own exports, pegged to the dollar, a competitive advantage. But as their economic growth has begun to accelerate, inflation has become a growing concern for south Asian policy makers. Their imports of high priced yen goods are growing even faster than their own economies. Linking their currencies to a more stable yen would be one way of curbing imported inflation.

Japan's Asian neighbours also owe a debt to Japan, literally, to tie the yen more closely to their own currencies. Over the nine years to 1993, the foreign currency equivalent of the yen debts of South Korea, Indonesia, Malaysia, the Philippines, Thailand and China nearly doubled from a combined $45.2bn to $84.8bn. Every time a finance minister from one of those countries visits Tokyo, he is expected to ask for relief on rising yen interest payments, and he usually receives a polite refusal.

The solution, clearly, is for Japan's Asian debtors to increase the proportion of foreign reserves held in yen and intervene in currency markets to reduce the volatility of their own currency against Japan's. Some have started to do so.

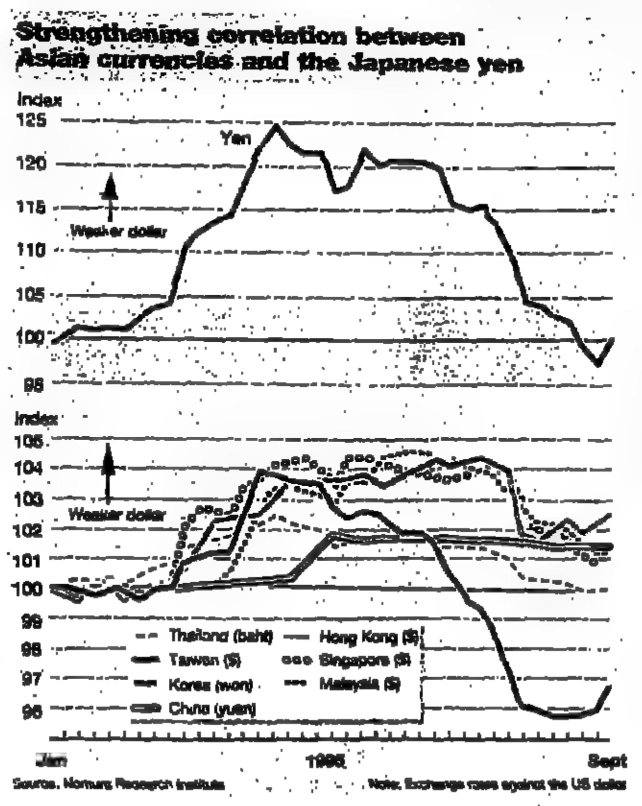
Early last year, the central banks of Malaysia and Thailand increased their yen holdings, followed by Singapore and South Korea. Those same countries at the same time allowed their currencies to appreciate sharply against the dollar during last spring's slide in the US currency. Dr CH Kwan, another Nomura economist, estimates that the weighting given to the yen in Asian central banks' currency baskets increased dramatically during that period.

In South Korea's case, the yen's weight more than tripled from an estimated 5 per cent in the first five months of last year to 17 per cent in the first eight months.

There is, however, one significant remaining barrier to the greater foreign use of the yen. The high costs and regulations involved in doing business on the Tokyo financial markets make it hard for foreign central banks and investors to buy the Japanese currency.

Bond issuance costs at two and a half times European levels, securities transaction taxes and a financial market judged in a recent survey by DMI consulting group to be little more sophisticated than Singapore continue to mar Tokyo's attractiveness to foreign investors. The most important sign of the Japanese government's commitment to a yen bloc will come when – or rather if – it accelerates the deregulation of the Tokyo capital market.

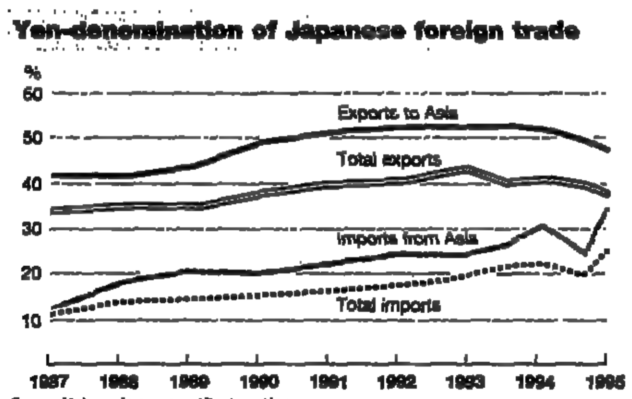
Strengthening correlation between Asian currencies and the Japanese yen



Source: Nomura Research Institute. Note: Exchange rates against the US dollar

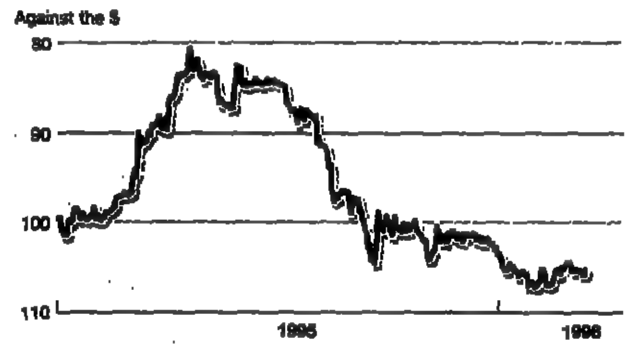
Tokyo money dealers at work: a yen block may be emerging. Reuter

Yen-denomination of Japanese foreign trade



Source: Ministry of International Trade and Industry

Yen



Source: FT Extel

■ BANKS: by Gerard Baker

Humbling of the giants

The banks of Japan are paying a high price to overcome a series of credibility crises

BANKS' PROBLEM LOANS	Total problem loans*	As % of total loans	As % of equity	As % of equity plus special reserves
City banks	10,283.8	3.72	87.7	44.1
Long-term credit banks	3,127.7	5.74	106.7	57.5
Trust banks	5,532.8	9.00	155.4	78.8
TOTAL (for 21 banks)	18,944.3	4.83	87.4	82.9

*net of specific reserves; includes restructured loans. Source: IBCA

Next week a new bank will open its doors in Tokyo.

The Bank of Tokyo Mitsubishi will be, by a comfortable margin, the largest bank in the world. Formed by the merger of Bank of Tokyo and Mitsubishi Bank, it will have assets of more than Y70,000bn and will offer a range of financial services at home and abroad unrivalled among Japanese banks.

In normal circumstances, the opening of such a vast new institution would be a cause for some traditionally lavish Japanese celebration. But it is is a sign of the times that the new bank will open to a muted fanfare. There will be no party, just a quiet, understated ribbon-cutting ceremony at the Tokyo headquarters.

The solemn mood is due to the continuing crisis over the long-running saga of the bail-out of the country's housing loan companies. Banks, under intense public scrutiny after the government's decision to spend Y685bn on a bailout of the housing lenders, cannot be seen to be spending money unnecessarily.

But the solemnity is also a fitting metaphor for the banking system as a whole. The Bank of Tokyo Mitsubishi will provide the most powerful example yet of Japanese banks' joyless pursuit of size over quality.

The last year has demonstrated the truth of the proposition that institutions only ever change when faced with a heart-stopping crisis. Last summer, a series of financial disasters combined to weaken international confidence in the Japanese banking system and threatened briefly to cause severe trouble for some of the weaker banks.

The collapse of several smaller deposit taking institutions, the revelations of massive losses at Daiwa Bank, and the continuing failure of the banks and the government to come up with a settlement of the housing lenders' problem produced real fears of crisis.

Suddenly banks found themselves forced to pay rising premiums for the privilege of borrowing in international markets. For some of the weaker banks the premium reached 60 basis points.

The main effect of the premium was to convince several of the stronger banks that it was at long last time to act to stop the haemorrhage of international confidence.

One of the principal concerns in international markets is of the lack of disclosure at financial institutions. Several of the leading banks decided to meet those concerns head on. They volunteered much fuller information about the health of their balance sheets than they had ever published before, in an effort to convince international investors that they were fundamentally sound.

Most of the leading banks also pledged to take more aggressive measures to eliminate their pile of problem loans. Two of the leading 11 city banks – Fuji and Hokkaido Takushoku – said they would report big losses in the financial year that ends this week when they declare their results.

But the moves, like the Tokyo-Mitsubishi merger, merely drew further attention to the gap between the strong banks and the weak.

Smaller banks were forced to follow suit in this public airing of their problems – and many of them came close to revealing for the first time just how sick they are – with bad loans of up to 9 per cent of their total lending. The trust banks and the long-term credit banks were particularly exposed.

This gap between rich and poor is most unusual in Japan's financial system.

For years, the leading banks moved in convoy. The ministry of finance, as the guiding flagship of the fleet, ensured that all banks travelled in roughly the same direction at the same pace. The idea was simple. Japan's banks needed to be carefully protected because they commanded a vital and, in the immediate post-war era, scarce national resource: capital.

Lending by Japan's 11 city banks (Ybn)	
End year	Lendings
1986	126,413
1987	146,889
1988	163,709
1989	181,673
1990	197,879
1991	206,802
1992	213,147
1993	213,323
1994	212,305
1995	209,990

Source: Bank of Japan

The regulators guaranteed them almost complete security from failure if they remained in close convoy, pumping much-needed funds into the expanding manufacturing sector.

But the opening of the country's markets to more international competition combined with the crisis caused by the collapse of the bubble economy in the last 10 years has left the convoy looking a little ragged.

The stronger banks, eager to impress in international markets, have strained to move away from the pack; while the weaker ones have fallen further behind under an insupportable burden of non-performing loans.

The strengthening of the top half dozen banks through the greater disclosure and disposal of bad loans is intended to equip them to compete in international financial markets.

At the other end, a real crisis seems to be approaching for the weaker banks. Nippon Trust, one of the troubled trust banks, has non performing loans of more than 10 per cent of total loans. Hokkaido Takushoku, the weakest city bank, recently announced plans for a radical restructuring aimed at eliminating its bad loans and shoring up its capital.

Chuo Trust and Nippon Credit Bank are also struggling to keep up with the rest. And the disastrous losses and subsequent cover-up at Daiwa Bank have brought about an enforced retrenchment in the bank's international and domestic activities.

Yet there is a delicious irony in this sudden onset of free market activity in the Japanese banking system. The strong banks are being prevailed upon by the authorities to help out the weaker banks. Most of those mentioned above have either already come to the assistance of the weak, or seem very likely to do so. It is a process of consolidation, half-forced on them by the regulators, whose grip on the system, though less tight than it was, remains formidable.

Mitsubishi, before its merger with Bank of Tokyo, bought the remains of Nippon Trust Bank. Sumitomo, one the top banks, and Daiwa are strongly rumoured to be on the point of a merger. And other banks are considering possible tie-ups.

Behind these machinations, of course, is the country's finance ministry. Though its power has waned in the last few years, and its reputation has suffered in the chaos over which it has presided, it continues to exercise an authority over its charges without parallel in international markets.

Officials still appear to believe that, while gradual change in the system is inevitable, perhaps even desirable, they should continue to dictate its pace wherever possible. The interests of the system as a whole are still to predominate over those of the banks. At the moment those interests still demand caution, according to the ministry.

The banks themselves may be chafing to escape into the world of freer, more dangerous markets. The authorities are decidedly less enthusiastic.

RELATIVE SHARES OF PRINCIPAL CURRENCIES IN THE EUROMARKET	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
■ Euro-yen bonds (Ybn)										
By non-residents	1,446	2,552	2,994	2,213	3,558	4,981	3,290	3,328	5,102	10,186
By residents	140	417	520	0	12	747	3,283	3,006	2,283	682
■ Currency denomination of eurobonds (%)										
US dollar	70.9	62.9	41.4	41.71	54.9	38.3	31.6	37.4	37.4	40.6
D-Mark	7.0	9.1	10.7	13.3	7.8	10.2	7.9	12.2	13.9	8.6

Source: Bank for International Settlements

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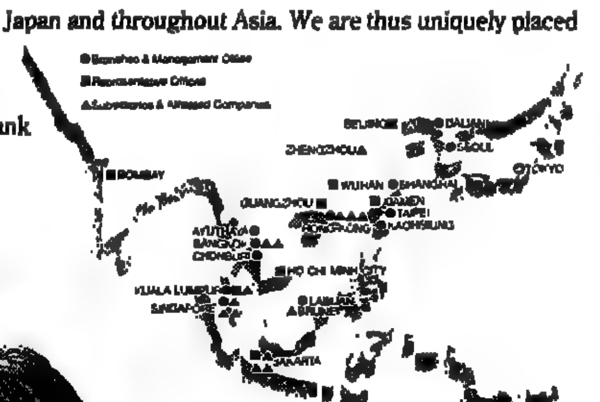

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■ **FULL-SERVICE BANKING:** by Gerard Baker

Fuji explores new fields

New domestic opportunities are opening up for the country's large "city" banks

While full-service banking is already a reality in much of the world, in Japan it is still a distant dream.

For decades, the straitjacket approach to banking regulation has ensured rigid *demarcations between* different financial sectors. A corpus of laws and, more often, the iron hand of the finance ministry's *administrative guidance have* defined down to the last detail the separate activities of city banks, trust banks, long-term credit banks, brokers.

But in the last few years, those barriers have begun slowly to be dismantled. As the growth of capital markets and the internationalisation of *Japanese money have eroded* banks' core business, the authorities have cautiously ceded some of the ground back to them through deregulation.

Increasingly, the nation's largest banks are able to exploit their powerful market muscle by developing the range of services they now *provide their corporate clients.*

The closest institution Japan has to a full service bank is probably Fuji Bank, one of the country's six largest "city" *banks. Building on its* widespread presence in a range of international markets, Fuji is now in the forefront of the banks that are *also exploring new* opportunities in Japan.

Internationally, Japanese lenders have long enjoyed much more freedom than they have at home. Fuji Bank has been operating banking and securities subsidiaries and branches in Europe, North America and Asia for decades.

But like most Japanese lenders, though the performance has been mostly sound, it has been far from spectacular, as scale has not always been matched by profitability.

The bank has devoted more resources than others to maintaining a foothold in *European markets, in spite of* the difficult economic conditions there, though it admits competition has been increasingly tight.

Fuji Bank	
At 30 Sep 1995	(Yen000 bn)
Total assets	52.06
Of which loans	31.98
Share holders' equity	1.88
Problem loans	
Non-performing loans	1.24
Restructured loans	1.06
Total problem loans net of specific reserves	1.65
As a % of equity	87.6%
As a % of equity plus Nippon reserves	64.7%
1995-96 forecasts	
Core business profit	0.44
Pre-tax loss	0.44
Net loss	0.40
Total employees	16,252
Offices	397*

* 354 in Japan, 43 overseas

In the US, in addition to its money-centre operations in New York, Fuji has a commercial finance subsidiary in Chicago-based Heller and has been trying to expand its *securities business, especially in the field of derivatives.*

But the principal hopes still appear to be invested closer to home. "The main focus is now Asia," says a Fuji manager in *Tokyo. "Japanese inward* investment there remains especially strong, and we have one of the strongest track records of supplying finance *for that type of business."*

The bank also believes its expertise in Asian markets will help it to capture more of the non-Japanese inward investment and trade-related activity in the region.

New branches or representative offices are opening in Taipei, Bombay and Vietnam and the bank says it aims to diversify the tangle of banking and capital markets services it offers as new markets open up.

But the most striking diversification for Fuji in the last two years has been in what is still by far both the biggest part of its business and its biggest headache – the domestic Japanese market.

In the last few years deregulation has permitted Fuji to open an investment trust management company and a broker, and later this year it will move into the trust banking business, one of the more lucrative banking operations.

Eighteen months ago, in one of the biggest changes in a generation, Fuji and several other city banks were allowed to open a securities subsidiary. *Though its parent company* may be among the largest banks in the world, Fuji Securities is no Nomura or Nikko.

Fuji's business is restricted to underwriting and managing debt issuance and trading in the still underdeveloped secondary bond market. But *the company has lost no time* in pitching its tent in the securities business.

In the 11 months since last March, Fuji has lead-managed 13 *corporate straight bond* issues with a total value of Y180bn, 3.2 per cent of the total market, a figure that ranked it seventh among managers in Japan. In underwriting it ranked tenth, with 2.3 per cent of issues by value.

That rapid progress means that the company has already overtaken most of the medium sized brokers – all but the leading four companies in this one field of broking to which it is allowed access and ranks high among the new broking subsidiaries of banks.

According to Mr Hideyuki Saka, a senior manager at the *subsidiary, the banking* relationship has been an important element in the company's early success.

"Obviously, many of the issues we have been involved in have been with customers of the parent bank," he says. If Fuji can continue to capture a significant share of the *securities business of its* banks' customers, it will have gone some way to recouping some of the business lost to capital markets over the last 20 years.

The same may also apply to a trust banking subsidiary, scheduled to open within the next year, which Fuji expects *to provide a crucial extra* dimension to the scope of its domestic banking services.

But the bank's management knows that for all the *opportunities in new and* expanding markets, Fuji's prospects remain blighted by what is still by far the largest part of its operations: its core domestic banking business. Fuji still has bad loans accumulated from the collapse of the bubble totalling at least Y2,200bn, more than 7 per *cent of all loans.*

In the course of the current year, it plans to write off a significant block of those loans and in the process will record the largest loss reported by a Japanese bank in almost half a century. And last month it announced an extensive restructuring programme aimed at bolstering profitability and its capital base, badly depleted by the bad loan crisis.

The progress made by Fuji *Bank in encroaching on new areas of financial activity has* been impressive. But it remains under pressure in its own backyard, and seems *unlikely to meet its aim of* being a successfully integrated financial service company until it has finally removed the mess that lingers there.

City Hall, Tokyo — Glyn Genin

■ **MINISTRY OF FINANCE:** by William Dawkins

The temple is under siege

The traditional bulwark of Japan's financial probity faces a national crisis of confidence

The great grey steel gates of the ministry of finance's front entrance have now been barred for two months, in defence against the right wing groups' sound trucks, which drive back and forth outside, proclaiming the ministry's alleged iniquities from deafeningly powerful loudspeakers.

The intrusion obliges ministry officials to use a side door to get to work in the morning at the most powerful government bureaucracy in the industrialised world. It is a stinging embarrassment for the elite of the Japanese civil service, inheritors of a Confucian tradition of wise central authority dating back 400 years.

The okurasho, or great storehouse, a name derived from feudal times when farmers *paid taxes in the form of rice,* is under the most intense attack in its history for its part in a highly unpopular scheme to spend Y685bn of public money *on liquidating bankrupt* housing loan companies –Y5,500 per angry citizen.

The arrival of the sound trucks at the ministry's doors also *symbolises the degree to* which Japan's system of financial and economic policy making has been thrown open for re-negotiation.

The housing loan controversy – known as the jusen fiasco – moved Mr Ryutaro Hashimoto, the prime minister, to launch a review of the *mighty okurasho's role last* month. It is due to come up with initial ideas shortly. The options under consideration range from a complete break-up, as advocated by some in the opposition New Frontier party, to the more likely separation of one or two limited functions.

Mr Shoichiro Ozawa, the NFP's leader, believes that curbing the finance ministry's power would be the first and most important step towards *making the bureaucracy* at large more accountable to the electorate. But even if circumspect, the review is a remarkable shift by a LDP which, until three years ago, had become accustomed to running Japan in a close cabal with the top men from the finance ministry. As such, it is a sign that *Japan's search for* a more open system of government, while slow and erratic, is advancing.

The attacks on the ministry are not entirely connected with *the underlying issues; they* also reflect politicians' desire to deflect blame for the jusen fiasco from themselves, cheered on by other ministries resentful of the tight MOF grip on their budgets and policies.

But the affair has also brought a climax to a debate *on the management of financial markets* and the economy and the appropriateness of Japan's authoritarian style of government in a modern *democracy. The power struggle* between politicians and the public administrators is an underlying theme in the political changes which began when the LDP lost a general election in 1993 for the first time in nearly four decades, and which still rumble on.

For most of its life, the okurasho, founded in something very like its present form in 1869, has been the nearest thing to a centre of power in a country where power and policy making is spread diffusely.

A strong central bureaucracy, with the finance ministry on top, was seen as essential for Japan's high speed industrialisation in the late 19th century and the post-1945 economic reconstruction, in which the ministry used its uniquely wide powers to pull *in individuals' savings* and channel cheap loans to vital industries, protected by high import tariffs and exchange controls.

That explains why the finance ministry continues to embrace a range of functions, which in other advanced industrialised countries were long ago assigned to separate departments. The most important include supervision and administration of the financial system, both the revenue and *spending sides of the budget,* the ownership and management of state-owned companies and customs.

But now the ministry's critics argue that Japan's mature and more open economy – with very low import tariffs and very few exchange *controls – needs a less authoritar*ian system, more open to advice and more sensitive to the international market forces which increasingly influence *Japan's livelihood.* "The Japanese method of organising society was effective in the cold war era when Japan's was a developing economy, but those conditions are gone forever and now Japan must adapt," says one former okurasho official who is now a member of parliament.

The jusen fiasco is merely the latest of a series of policy mistakes which have brought the ministry to critical public attention over the past year. These include supervisory errors such as the handling of the Daiwa Bank crisis, in which the bank was drummed out of the US after regulators there were allegedly misled about huge bond trading losses last year, and initial reluctance to force Japanese banks to disclose the full scale of their bad debts, to the damage of their international credit ratings. Allegations of impropriety against officials – almost unheard of in the past – have fuelled antipathy.

There is, argue the ministry's critics, a common thread to these mishaps. Just as the bureaucracy's general role has been to identify the public interest and run Japan accordingly, so the okurasho has interpreted the public interest as guarding economic and *financial stability. But increas*ingly, the duties of financial supervisor have come to conflict with stability. Five years of recession and the growing internationalisation of Japan's financial system have made that conflict acute.

The Daiwa crisis was a clear example of how the ministry's instinct for stability constrained the fierceness it should have shown as supervisor – to the eventual detriment of the many Japanese banks which had to pay a premium for borrowing on international markets because of fears that they too might be concealing heavy trading losses.

Another criticism, which has been applied to Japan's civil service as a whole, is that the bureaucratic tradition of changing jobs annually does not enable officials to specialise. As the finance ministry's wide range of tasks become more complex and start to conflict with each other, specialisation becomes more vital, it is said. A break-up into more focused ministries might help.

Finally, comes the question of accountability. The ministry's sheer size, it is argued, has allowed it to grow insensitive to the advice of politicians and other ministries. It may even be possible, argue critics, that a smaller ministry, with less clout and more of an inclination to take expert advice, might have better handled the late 1980s surge in asset prices and the subsequent collapse, which triggered the longest recession for 50 years.

Whatever the outcome, the ministry is, for the first time, on public trial. The judgment will throw much light on just how weak or strong is the mood for a more open government.

Wataru Kubo, the finance minister, with Ryutaro Hashimoto, the prime minister (right)

■ **SECURITIES:** by Charles Smith

The pulse is weak

The big four securities houses have bounced back, but lesser firms are in trouble

After four years of heavy losses, Japan's hard pressed securities industry appears to *have enjoyed a modest return* to financial health in the fiscal year ending this month. But most analysts feel the industry is at best convalescent and at worst enjoying a brief respite from an almost incurable illness.

"It's been clear since the end of the 'bubble' that there's serious overcapacity in the securities business," says Mr David Threadgold, financial analyst for BZW Securities in Tokyo.

The biggest companies, Nomura, Daiwa, Nikko and Yamaichi, have overcome most, if not all, the problems they faced after the bubble burst in 1990-91 and are expected to earn comfortable profits in fiscal 1995 (Nomura's parent company's profits, for example, are expected to pass Y100bn in fiscal 1995 for the first time since fiscal 1990).

But the Big Four still depend more heavily on commission income – and thus on fluctuations in daily trading volumes on the Tokyo Stock Exchange (TSE) – than counterparts in New York or London. Below the top four are a dozen or so second tier companies that are either barely viable or chronically in the red.

Operating losses by the 12 second tier companies totalled more than Y150bn in fiscal 1994 (the 12 months ending in March 1995) with some companies losing more than 25 per cent of shareholders' equity, according to Nihon Keizai Shimbun (Nikkei), the leading Japanese business daily.

Nikkei expects 1995 results for the second tier to be substantially better, in the light of *current improved TSE trading* levels and a bond market boom which temporarily boosted some companies' earnings in the spring and summer of 1995.

But the sector as a whole *will still be in deficit.* Combined losses at the five weakest companies are likely to have approached or exceeded Y50bn during fiscal 1995. Only one *second tier company,* bond specialist Kokusai Securities, is expected to announce 1995 profits of more than Y5bn.

The prospect of second tier *companies resolving their* problems by conventional cost cutting progress seems fairly slim even though market activity has picked up recently, says Mr Threadgold. "It looks as if the ministry of finance will have to take the lead in working out a restructuring plan for some of the weaker companies." But the ministry, says Mr Threadgold, is being "terribly short sighted".

He accuses the ministry of "banging on" to excess capacity in the securities sector just as it did with the jusan, the insolvent housing loan corporations whose bad lending to find bona fide customers during the late 1980s led them to make trillions of yen worth of loans to dubious property developers.

Mr Walter Altherr, newly appointed banking and securities analyst at Jardine Fleming, agrees that capacity may have been taken out of the industry through eastern-style mergers, or possibly through outright insolvencies of some of the weaker companies.

The structural problems facing securities companies are the result of extreme fluctuations in equity values and trading volumes on the TSE during the late 1980s and early 1990s, combined with an inflexible employment system that makes it hard for companies to lay off workers, or even convert salaried employees into commission salesmen.

In 1989, when the Nikkei share price peaked at just over Y39,000, daily average trading values on the first and second sections of the exchange exceeded Y1,300bn. In the next four years, the Nikkei lost more than half its value, while trading volume fell to below a third of its 1989 peak.

TSE trading volume, rather *than the absolute level of share* prices, is the key issue for most securities companies, says Mr Brian Waterhouse, financial analyst at James Capel Pacific, because most companies still make a living by brokerage commissions rather than by discretionary trading on their own account.

Mr Paul Heaton, a financial analyst for Deutsche Morgan Grenfell, notes that the entire securities industry suffered a 68 per cent fall in its commis*sion income between 1989 and* 1994, including bond broking commissions and underwriting.

Against that, most companies have managed to cut costs by 30 to 40 per cent over the past five years while labour costs for the whole industry have fallen 20 per cent. Foreign companies in Tokyo, which suffered less than Japanese companies during the post bubble era, employ large numbers of commission salesmen whose basic earnings can be as low as Y5m per year.

> "The ministry may have to work out a restructuring plan"

In the past three or four years, some Japanese companies have begun to copy this system but most company salesmen are still paid on the basis of fixed salary plus an annual bonus. "We can encourage our sales people to shift them to a commission-based payment system, but we can't force them to do so," says a corporate planning manager at a medium sized securities house.

The mismatch of high fixed labour costs and rapidly falling retail equity sales has been most apparent in the performance of some large second tier companies such as Sanyo Securities or Kankaku Securities. Sanyo lost Y33.7bn in fiscal 1994, largely because of *high fixed costs accumulated* during the late 1980s when the company was trying to match equity commissions earned by the Big Four.

Kankaku Securities – which announced recurring losses of Y30.9bn in 1994 on operating revenues of Y50.2bn – resembles Sanyo in its basic strat*egy, though it never aspired to* be a member of the Big Four.

Both companies are equity retailers who require large armies of salesmen and an *extensive branch network* to service their customers. Cutting back on these networks can save money, but it can also mean, says Threadgold, that *companies who rationalise too* drastically are "chasing revenue downwards".

Competition from abroad is another problem for second tier Japanese *securities firms,* notes Jardine Fleming's Altherr. Foreign investors accounted for 21.4 per cent of TSE buying in 1994, compared with 9.3 per cent in 1990, while share purchases by Japanese individuals shrank over the same period from 24.1 per cent to 14.7 per cent of market turnover. Foreign investors tend to use foreign securities companies or the Big Four. That means that the pie for which second tier companies can contend shrank much faster between 1990 and 1994 than the market as a whole.

The notion that there is no way out for medium sized Japanese securities companies except merger or extinction is not shared by all analysts. "A number of small Japanese companies have managed to survive, or even prosper, by developing niche markets such as underwriting share issues in the over-the-counter market," notes Deutsche Morgan Grenfell's Heaton. For the bulk of the industry, though, what counts is trading levels on the main floor of the TSE.

That is a sobering thought given that TSE levels of activity may take more than another decade to recover the levels attained during the second half of the 1980s.

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The skyline of Shinjuku, Tokyo: commercial tenants are staying put Ashley Ashwood

■ **LIFE ASSURANCE:** by Gerard Baker

Supremacy under strain

World financiers no longer dance automatically to the Japanese life assurers' tune

Japan's life assurers have grown used to holding world financial markets in thrall.

Among the largest financial institutions in the world, with total assets of more than Y170,000bn between them, they have long known that they have only to raise an eyebrow in the direction of some new allocation strategy, and the world's money follows.

But though their size continues to guarantee them their status as investors to watch, there have been signs this year that their own fortunes are now far more likely to be determined by the actions of others.

Since the beginning of the year, some of the country's largest pension funds have begun moving money away from life assurers, traditionally one of the largest groups of pension fund managers. The exodus is patchy as yet but it seems certain to grow unless the assurers find ways of improving their chronically weak performance.

A continuing deterioration in their asset/liability yield spread, poor asset quality and a weak capital base, are now being exacerbated by growing competition for the funds which they have long been used to monopolising.

The underlying problem is the poor investment performance in the last few years.

In the 1980s, buoyed by galloping capital gains on their holdings of equities and land, the assurers wrote ambitious policies for their customers, offering guaranteed minimum returns commensurate with the yields on their assets.

Their performance was so strong that between 1986 and 1989, they were actually able to offer returns on 10 year assurance policies higher than the yield on 10-year benchmark bonds.

But with the collapse in equity and land prices since the bursting of the bubble economy, the sharp rise in the yen against other world currencies, and falls in interest rates, the yields on the assurers' investments have slumped, while the yields promised investors have fallen only slightly.

For the last three years returns actually achieved have been over 1 percentage point lower than those needed to meet their liabilities.

Last month Moody's, the US credit rating agency warned that the problem was growing more acute and was increasing the pressure on life assurers. "Spread deficiency is likely to continue for several more years, even though the industry has been able to lower guaranteed minimum returns", said Mr Shunsaku Sato, analyst at the agency.

To fill the gap assurers have been forced to realise gains on their holdings of securities. Since they hold many shares bought before the rise and fall of the stock market in the last 10 year, they still have a cushion against losses, but it is getting thinner.

A further problem has been the decline in new business, as investors become increasingly wary of depositing their savings with such lacklustre institutions. That will place an extra future burden on them, since the improvement in profit margins on future business needed to recoup past losses is growing steadily greater.

The companies also suffer from a weak capital base. As mutual institutions, they are required to distribute all their current profits at the end of the fiscal year. As a result, capital retention has been minimal.

Mr Andrew Smithers, an independent financial analyst, says their plight is grave: "there is no short-term prospect of the industry being able to raise new capital. It thus lives under the shadow of a crisis and a solution to its problems will probably take many years."

It is not surprising, perhaps, in the face of this remarkable array of difficulties, that the the assurers now face greater competition for the Japanese investor. The attractions of the post office, bonds or even banks have proved considerable for the cautious investor, especially since life assurers' dividend yields have fallen towards market interest rates. But there is an even bigger threat in the form of the continuing deregulation of financial markets that is gradually turning over life insurers' core business to other companies.

Non-life insurers will be allowed to set up life assurance subsidiaries later this year, and their relatively strong capital position will enable many of them to undermine the life companies. But an even greater threat comes to one of the life companies' most valuable businesses – managing public and private pension funds.

After the nations' trust banks, the life assurers are the second largest group of pension fund managers. In the past, the two sectors have enjoyed a cosy duopoly of more than two thirds of the nation's leading funds. But after years of pressure the government has finally begun to open up the market to new competition.

A year ago, investment advisory companies, including foreign companies, were allowed to bid for an extra 30 per cent of total pension fund money in Japan – taking their potential share of the market up to 57 per cent. The opening has proved successful and popular with pension funds, and from next month their share will be opened up further.

The changes have begun to excite real competitive interest in the market. Already this year, Nempuku, the main public sector pension fund, and several private corporations have announced they intend to diversify their investment allocations away from life companies. Others are almost certain to follow.

The assurers are on the surface unmoved by the threats. "In the current investment climate these pension funds will not be able to get better returns elsewhere."

But others are not so sure. The record of foreign investment advisers in the last five years has been much more impressive than Japanese managers. With no early prospect of a recovery in assurers' prospects and with new opportunities opening up for foreigners all the time, the gradual shifts in the management of Japanese investment funds look certain to accelerate in the next few years.

Senior citizens in the Sugamo market: pension fund management is on the agenda Ashley Ashwood

■ **PROPERTY VALUES:** by Michiyo Nakamoto

Still a buyer's market

Although land prices have fallen steeply for several years, there are no signs of them reviving in the foreseeable future

This month, up to three thousand Tokyoites will be moving into brand new apartments built on reclaimed land in the middle of Tokyo Bay.

By the standards of the Japanese capital, rents there may be affordable and the homes may be agreeably close to central Tokyo. But the new residents of the waterfront are likely to find their surroundings strangely deserted.

The residential district that has been attractively constructed with landscaped gardens and wide, open promenades is part of an ambitious 448 hectare development dubbed the Waterfront Subcentre and conceived as the city of the future.

Yet while the public housing units are highly popular, much of the futuristic metropolis, which was planned to accommodate a working population of 110,000 and a residential population of about 60,000, lies uncomfortably vacant.

When three new office buildings owned by a consortium opened their doors to tenants earlier this year, the occupancy rate was just 47 per cent. The owners of newly opened buildings in the area recently announced that rents would be reduced for a second time to about half the initial rate.

The plight of the Waterfront Subcentre is mirrored throughout Tokyo and to varying degrees in other urban areas in Japan.

Although land prices have fallen continuously and sharply over the past several years, there are as yet few indications that the trend will be reversed in the near future.

After peaking in 1990, land prices in the six main cities have plunged 51 per cent, according to the Japan Real Estate Research Institute.

In the long term, a declining population, the shift of manufacturing overseas and the shrinking agricultural base in line with liberalisation are all likely to lead to a softening of property prices, says Mr Minoru Mori, president of Mori Building, which owns a large number of buildings in Tokyo, in a recent interview.

Tokyo, in particular, has seen a decline in its population as corporations and residents have moved to the suburbs where they hoped to get more for their money.

While the drift from the city appears to have been halted by the plunge in urban land prices and rents, it could be revived if long distance commuting catches on in Japan as it has in the US.

More immediately, overall land prices in Japan are expected to to keep falling before reaching rock bottom.

There is a lot of unsold real estate on the market due to the collapse of land prices. According to Mr Steven Weller, industry analyst at Jardine Flemings in Tokyo, there is Y3,800bn worth of real estate on the books of the Cooperative Credit Purchasing Corp, an organisation set up by private banks to liquidate real estate taken as collateral for debt that has gone bad.

The ministry of finance carries Y1,200bn in real estate from individuals paying inheritance tax in kind, which it wants to sell while the ministry of transport needs to liquidate nearly Y3,000bn in real estate assets to pay for the debt of the former national railway privatised in 1987.

Taking into account some overlap, Mr Weller estimates that there is roughly Y16,000bn worth of real estate for sale from just those three leading sources.

A striking indication of the market, he says, was that a government programme to buy and develop real estate was inundated with Y10,000bn worth of sell applications in the first year.

The large volume of property for sale points to an oversupply of both commercial and residential buildings that is likely to persist for some time.

In the large cities, vacancy rates remain high while further supply is scheduled to come on stream this year. There is also a stock of property belonging to the many real estate and construction companies eager to liquidate assets, some of which could come on the market.

Many of Japan's real estate and construction companies bought land as asset prices rose in the late 1980s and early 1990s. The sharp decline in land prices has prevented many of them from selling their assets at depressed prices which would leave them with huge losses.

However, some of these companies may nevertheless be forced to liquidate their assets nonetheless. Haseko, a leading general contractor, announced last October that it would bite the bullet and sell its real estate assets even if it would be forced to report a loss of Y185bn in the year to March and pass its dividend for the first time since it was listed.

The signs are equally bleak in the residential property market. The surplus of apartments in the greater Tokyo market is more than double the historical average, and inventories are set to rise, notes Jardine Flemings.

Many financially weakened developers can no longer afford to engage in long-term projects which do not provide returns for many years, and are therefore concentrating their resources on apartments, industry members point out.

Land prices will no doubt, stop falling eventually. But even then, few expect a strong rebound comparable to that of the late 1980s.

The surge in asset values was then supported by a level of excess liquidity which is not expected to be seen again, says Mr Weller.

Furthermore, the Japanese government appears intent on allowing prices to fall further. Its white paper on land for 1995 notes that the value of Japan's real estate assets is at an "extremely high level" compared with the US and England. In 1992, real estate assets in Japan amounted to Y1,968,400bn compared with Y478,600bn in the US and Y148,200bn in England.

While property values in Japan have fallen further since 1992, and more people can now afford to own their own homes, the 1995 white paper indicates that further efforts are needed to improve housing conditions and social infrastructure.

The white paper states categorically that the government wishes to eliminate the price differential in land prices between Japan and the rest of the world in order to bring the Japanese standard of living closer into line with that of other international societies.

■ **CORPORATE FINANCE:** by Gerard Baker

Five year chill is over

Companies are becoming keener to borrow and banks more eager to lend

Few countries can have been as ripe for a good old-fashioned credit crunch as Japan has been for the last few years. The lingering financial crisis was widely expected seriously to undermine prospects for economic recovery. Banks, it was claimed, would be forced to retrench. Tougher lending criteria would be applied to the corporate sector, which would gradually be starved of new capital.

The relative importance of bank lending as a proportion of total corporate finance in Japan – estimated at up to 50 per cent of all new funding for companies – was a factor thought likely to complicate matters further.

In the US in the early 1990s, a cautious approach by lenders was often cited by manufacturers as an important brake on a more rapid expansion. And in the US a much higher proportion of total corporate finance comes from disintermediated borrowing in capital markets.

But in Japan in the last five years, a shortage of bank lending has not been widely cited as a cause of weak growth. Indeed, while Japanese banks were going through their most serious period of crisis in the second half of last year, bank lending actually rose at its fastest for three years.

According to the Bank of Japan's authoritative quarterly Short-Term Economic Survey of Enterprises (the tankan), borrowing from of financial institutions has been growing steadily easier for the last five years, and companies' own liquidity has been gradually strengthening over the same period.

The evidence seems to support banks' claims that the problem holding back recovery over the last few years was not a lack of supply, but a lack of demand for funds. "We remain very eager to lend," says a spokesman for one of the larger banks. "There has simply been a marked lack of demand for borrowing."

This seems to fit with the apparent nature of the country's stagnation over the last five years. The recession has been characterised by a reaction ,by companies to over-accumulation during the bubble economy of the late 1980s. Buoyed by big gains from rising stock and land prices, many companies implemented lavish investment programmes. According to the tankan, a majority of companies still have excess productive capacity as a result of those programmes.

And when they have needed to raise money, big companies have increasingly turned, not to banks, but to the bond market.

Last year, companies issued corporate straight bonds worth almost Y5,000bn, the highest figure ever. The volatile stock market and unofficial restrictions on new equity kept convertible bond and equity issuance low, but the trend of companies using the debt market is clearly rising.

In the last year banks have at last been able to meet some of this demand for disintermediated lending through their own securities subsidiaries. The city banks were allowed to join the long-term credit banks in the debt market last year and have already begun to make substantial inroads. "Much of our business is coming from customers of the parent bank," says a manager at the broking subsidiary of a large bank. "We expect to see that process continue."

But this picture of a banking sector falling over itself to finance the investment needs of big Japanese companies may

Bankruptcies among smaller cash hungry businesses are still reaching record levels

be slightly misleading. While the large businesses may be eschewing the banks' advances, many smaller companies, who form the backbone of Japanese manufacturing industry, say they have not found banks so accommodating.

One manager of a medium-sized manufacturer complained vociferously last year of a new caution on the part of his bankers that almost forced him to drop plans for a rationalisation programme which he had planned to finance through bank borrowing. Others have echoed those complaints.

Banks themselves, while denying that they have squeezed their smaller customers, acknowledge a greater degree of caution in lending. The bulk of advances for smaller enterprises are still heavily driven by the value of collateral. As land prices have continued to fall, some companies have seen credit lines cut. Bankruptcies among smaller companies are still rising at record levels, a number of which have been attributed to a tougher lending stance by banks.

But this caution is unlikely to last. Banks will compete most intensively for the privilege of lending to small companies. Lenders are under pressure not just from an expanding bond market, but also from an important long-term change in the structure of Japanese industry.

For most of the post-war period, the economy has been structured around the "main bank" system. The big industrial groupings – keiretsu - have had at their centre one of the large banks. The keiretsu companies would form the bulk of the bank's customers, as long-term relationships were the core of Japanese industrial financing. But that system is now gradually breaking down. Corporate ties to banks are weakening and the web of cross-shareholdings that knits the groups together is being slowly unwound.

As a result banks will no longer be able to rely on steady demand from their familiar, large customers. They will be forced instead to look increasingly beyond the safe fortresses of their keiretsu for borrowers. The small industrial companies, at least those that survive the current problems, can look forward to those prospects with some relish.

There are Sakura branches extending throughout the world

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SAKURA BANK

NOMURA SECURITIES: by William Dawkins

A spectacular recovery

Japan's leading stockbroker is about to rehabilitate itself with best results for five years

Hideo Sakamaki: the president's shake-up has yielded results

Mr Hideo Sakamaki, 60, Japan's most powerful stockbroker, has reason for quiet satisfaction.

He walks into the room with an air of confidence, consistent with the progress that Nomura Securities, one of the world's largest stockbroking companies, has made in rehabilitating itself.

Mr Sakamaki took over as president in 1991, with a remit to shake up Nomura, then tumbling from a peak to a dramatic low in its fortunes. In the fiscal year ending this month Nomura is on track to produce its best performance for five years after a recurring profit, before tax and extraordinary items, of Y61.3bn in the nine months to December.

Much of that comes thanks to a strong Japanese bond market, but it also reflects the extent to which Nomura has cut its own costs and increased efficiency during the recession.

"We place primary importance on quality above quantity...at the same time a global service is indispensable," says Mr Sakamaki, sipping green tea in an ante-room dominated by a large Chagall.

The oil painting is a symbol of the pride that preceded the 1991 humbling of Nomura by a stock market scandal, in which it was alleged to have compensated favoured clients for share losses, cultivated gangster groups and cornered shares. It was a prime example of the ills of the bubble economy, as well as a factor in forcing Nomura and others to confront weaknesses concealed by the prosperity of the time.

It has been Mr Sakamaki's job to apply the lessons of that experience – and it has not been easy. In the first year of his incumbency, to March 1992, the group's pretax profits fell by more than three quarters, followed by losses in 1993 and in the year to March 1995.

The saga was a stimulus for reform at Nomura and the Japanese securities industry as a whole. But there have, of course, been limits to change.

Nothing illustrates those limits more clearly than the recent rehabilitation of the two senior Nomura directors who had resigned to show responsibility for the scandal, Mr Setsuya Tabuchi and Mr Yoshihisa Tabuchi.

They last year made a discreet re-entry to the Nomura board, a sign to some that attempts to break with the past were less than sincere. Nomura argues that despite the burden of the past, it now needs the Tabuchis' skills.

This is not to underestimate the real progress that Nomura has made in putting its house in order. Among the things that have come in for reform, Mr Sakamaki highlights higher costs than international competitors over dependence on the domestic business – from which the formerly incestuous relationship with domestic clients stemmed – and a relatively unspecialised research capability.

Like other leading Japanese companies, Nomura declined to make big redundancies during the recession, preferring to observe the taboo against sacking large numbers.

Nevertheless, it has managed by dint of cutting graduate intake and not filling non-essential jobs vacated by retirement to trim parent company staff by just over 700 to 10,240 over the past three years and to bring down monthly overheads from a peak of Y26bn to Y23bn.

More cost cuts and efficiencies are coming, notably from the full benefits of a management accounting system, launched two years ago, which for the first time in Nomura's history allocates costs and return on equity by department. The aim is to make individuals more aware of their profitability to Nomura.

The group has also sought to lift individuals' motivation by moving away from the old seniority based pay and promotion system, towards a policy more based on merit.

Yet there are limits to the extent to which western security company management practices can be applied to Nomura in Japan. Nobody has, under the new system, been given a pay cut for demerit, a common technique used by US security companies to encourage underperformers to leave.

Mr Sakamaki admits that Nomura's commitment to lifetime employment cannot be changed. "US and European companies can make clear reductions in personnel, but we have taken only the first step." He is not the only senior Japanese executive to feel obliged to accept this cost disadvantage.

Bearing in mind that constraint, it is no surprise that Nomura's return on equity is even after all these efforts put at a mere 3 per cent, a fifth of the return achieved by its European and US competitors. Mr Sakamaki admits that he cannot predict when Nomura will be able to close that gap.

International expansion is the other policy that he has pursued in an attempt to increase Nomura's long term profitability.

The group's sheer size – as for, example, the world's largest Eurobond underwriter – has in the past belied the fact that the bulk of its revenues come from the domestic business of trading Japanese shares and bonds. But now the image of Nomura as a global securities company is moving from part illusion closer to reality.

Five years ago, domestic revenues were 80 per cent of Nomura's total. That had sunk to just under 60 per cent by 1995 as the US, Europe – now an equally combined 35 per cent of the total – and Asia advanced.

Nomura's more international make-up arises partly by default, a consequence of the decline in the Japanese stock market over that period.

But it is also deliberate. Assets outside Japan have risen from 48 per cent of the total to 67 per cent over the same period and one fifth of the staff now work abroad. Recently, the group has focused international expansion on the rest of Asia, where the number of staff has more than tripled to just under 1,000 over the past five years.

But Mr Sakamaki has no illusions about emerging Asian markets. Nomura does not expect profits from the region to come easily. It had nearly 13 per cent of its assets in Asia and Oceania last year, three times the level in 1994. But to illustrate Mr Sakamaki's cautious patience over revenues, the same region generated less than 5 per cent of group revenues in 1995. His aim is to lift that proportion to 10 per cent of the company's revenues, though Mr Sakamaki adds that he has not set a firm deadline for that target.

Encouragingly, Nomura executives point to the way in which Nomura's original business in Asia, selling Japanese equities to local investors, has now broadened to selling Asian equities within the region.

Nomura, like other securities houses, has found that its research base has become increasingly important to supporting equity sales. "It is very important to build a strong research platform to respond to the needs of our customers," says Mr Sakamaki.

Over the past five years, the company's research affiliate, Nomura Research Institute, has more than quadrupled its team of equity analysts to just under 1,000, of which an increasing number are being asked to specialise in industry sectors.

The changes at work are incremental and subject to some uniquely Japanese constraints – and yet there is no doubt that the mighty Nomura is recovering confidence.

FOREIGN INSTITUTIONS: by Emiko Terazono

Long road back to Tokyo

Deregulation of the finance sector has suddenly started to make Tokyo seem less inhospitable to foreign investors

Some foreign companies now see potential for profits in the Tokyo financial markets as the Japanese government begins gradually to ease its administrative grip.

Deregulation in the domestic financial markets has already benefited foreign asset managers and the institutions which service them as the government, facing an ageing population, has started to open up the pension fund market.

The change in mood follows several years in which foreign institutions had been leaving Tokyo, raising concern about its decline as an international financial market.

Earlier this year DE Shaw, a New York based broker specialising in equity linked products, launched operations in Tokyo just as the Japanese government prepared to ease the pension fund rules restricting investment consultancies' access to corporate pension fund management and limiting fund allocation to various investment products.

From April, investment consultancies including foreign asset managers will be permitted to manage up to half the assets of private sector employee pension funds, worth a total of Y38,000bn. Investment advisers' access is currently limited to just a third of those funds, and from March 1999, the restrictions will be lifted completely.

In the past foreign fund managers have secured higher returns than the leading Japanese fund managers, and the change is likely to encourage pension funds to entrust more money to the foreigners.

DE Shaw says it is feeling the impact of such changes, as business from investment managers looking for higher returns in equity linked products has risen. The company also hopes that by entering Japan when every other foreign institution seems to be departing, it can make a positive impression on Japanese clients.

The government will also ease curbs on investing pension fund monies managed by trust banks, the largest domestic managers of pension funds. Trust banks have been obliged to hold at least 50 per cent of funds in safe investments. The maximum limit on equities and foreign currency denominated asset holdings has been 30 per cent, and property investments have been restricted to 20 per cent.

But they will no longer have to invest at least half their funds in government bonds or other safe assets, and the changes are expected to persuade the trust banks to increase investment in foreign securities and domestic equities.

Meanwhile, the government will allow national pension funds for the self-employed, which total some Y430bn, to allocate their funds, which have until now been entrusted to insurance companies and trust banks, to investment advisory companies.

Many of the leading corporate pension funds have started to prepare for the deregulation. Nissan Motor, the country's second largest car maker, and NEC, the electronics concern, recently announced that they were considering reducing the proportion of their pension fund assets currently managed by life insurance companies.

Nissan intends to reduce the proportion of its Y260bn in pension funds allocated to life insurers by 1 or 2 percentage points from 60 per cent from April. It wants to shift the funds to trust banks and investment advisers. NEC says it was studying a range of options for diversifying more than Y330bn in its corporate pension funds.

Other pension funds have already started to appoint foreign managers. For example, a Japanese auto-parts industry pension fund has appointed the Japanese arm of National Mutual Life Association of Australia, an Australian life insurer, to manage Y700m. Kinki Coca-Cola Bottling also recently announced that Y3bn in pension funds will be managed by Scudder, Stevens & Clark, a US fund manager, from June.

> There may be prospects in the asset backed securities market

Industry analysts also note that there may be growing opportunities in the asset backed securities market, which is almost non-existent in Japan. In February, the Japanese government pledged to introduce an asset-backed securities market to US financial officials during bilateral financial services agreement talks.

Japanese officials are looking at the products to provide a quicker resolution of the country's banks' bad loan problems. Banks are currently unable to dispose of the collateral against their bad loans, but if the loans are repackaged as asset-backed securities, they could be traded. Foreign institutions, especially US investment banks, have accumulated expertise in handling asset-backed securities and are expected to benefit from the development for such a market in Japan.

However, deregulation and other changes in the Tokyo financial markets may be too slow to bring back those foreign institutions which have already left Japan. As costs started to outweigh the profits and opportunities, many of the foreign brokers who arrived in Tokyo during the late 1980s quickly transferred their head offices and derivatives trading to other Asian centres, namely Hong Kong and Singapore.

A survey by Mori Building Shoji, a Japanese property developer, conducted last year highlighted the "hollowing out" of Tokyo's financial markets. Mori said that of the 32 foreign financial institutions surveyed, eight had already moved their derivatives trading to other parts of Asia.

Companies gave high corporate taxes in Japan, which is more than double that of Singapore and three times that of Hong Kong, as the main reason for leaving Tokyo. Of the three countries, only Japan levies securities transaction taxes on brokerage companies.

Of the 32 companies, 11 had removed their Asian headquarters from Tokyo with nine moving to Hong Kong and two to Singapore. Only two had maintained their regional headquarters in Tokyo.

Such shifts have prompted some Japanese financial companies to follow suit. Nittan, a leading Japanese currency broker, last year announced that it would shift its foreign currency options operations to Singapore from Tokyo. Nittan said some 80 per cent of options trading by foreign banks have left Japan. The move followed a similar announcement by Kobayashi, another currency broker, which shifted its dollar/Deutsche mark trading operations to Singapore.

CONSUMER FINANCE: by Michiyo Nakamoto

Debt taboos are easing

The expansion of consumer borrowing reflects a radical change in social attitudes on personal debt

A voracious appetite for credit has developed

Being in debt has long been considered a shameful state of affairs among many older Japanese.

Someone unable to repay his debts is seen as a man running away from his family and friends in the dark of the night with just a small bundle of clothes on his back.

However, the stigma attached to borrowing money clearly has not been passed down to the younger generation.

In recent years, the Japanese have acquired a voracious appetite for credit, which has supported a remarkable growth in the consumer credit market. Since the 1980s, in particular, growth in the consumer credit industry has been noticeably buoyant.

Between 1980 and 1992, Japan's GDP doubled but the value of consumer credit provided grew 3.2 times, says Promise, a leading consumer finance company. The growth in consumer loans was even stronger, increasing 4.5 times fold in value during that time.

The growing Japanese acceptance of debt has supported a rise in the ratio of consumer credit outstanding against disposable income from 16.7 per cent in 1986 to 25.8 per cent in 1993, according to Japan's Economic Planning Agency.

Since the sharp fall in Japanese asset values in the early 1990s, there has been a slight setback in the industry. The consumer credit industry paid out new loans totalling a record Y70,719bn in 1994, says the Japan Consumer Credit Industry Association.

But within the market, there has been a structural change since the collapse of Japanese asset prices over the past few years. Banks, which accounted for a significant part of the market, have largely withdrawn while companies which specialise in consumer finance have seen demand rise strongly.

As asset prices in Japan surged to astronomical heights in the late 1980s, Japanese banks lent large sums of money that were often used for speculative purchases of golf-club membership, stocks and art works. Individuals and companies frequently poured money borrowed from banks into assets which they believed would multiply in value.

Since asset prices have plunged, this activity by the banks has been curtailed while the banks themselves strictly curbed consumer credit.

Consumer finance specialists and sales credit companies, on the other hand, lend small sums of unsecured cash which is used mainly to pay for purchases made on impulse or personal entertainment.

Even as asset prices have plunged, there has continued been a growing need among Japanese consumers for small-lot cash loans.

"While new consumer loans made by the banking sector, averaging Y3m per borrower, are declining, small-lot cash loans of leading sales credit companies and some consumer finance specialists are growing at a double-digit rate in fiscal 1995," says ING Baring Securities.

The growth in consumer cash loans highlights the need felt by Japanese consumers for easy-to-borrow money as well as the success of the consumer finance companies in meeting it.

On busy street corners and station hallways in Tokyo, passers-by are frequently handed packets of tissue paper carrying advertisements for cash loan companies, complete with a free-dial number.

For those who are still shy to borrow, finance specialists have recently devised remote account-opening systems which enable users to open an account via a TV monitor, rather than face-to-face with a teller.

The convenience of borrowing from consumer finance specialists, which can extend loans on the day of application, is unmatched by financial institutions which require a longer application process.

Consumers seem re so eager to spend that even interest rates of about 25 per cent are no obstacle and the efforts of consumer finance companies to find new users are paying off handsomely.

Promise, one of the large four consumer finance specialists, says it maintains net growth in customer accounts of more than over 100,000 a year.

In contrast to the continuing gloom at the banks, weighed down by the enormous burden of bad debts incurred during the bubble years, consumer finance specialists, in particular, have been buoyed by surging profits.

Takefuji, the largest consumer finance specialist, posted recurring profits of Y70bn yen in the year to March, 1995, according to Mr Kouya Hasegawa, an analyst at Nikko Research Centre. This is more than the recurring profits of Sakura Bank, the leader among large banks, which made Y60bn, he says.

Mr Hasegawa points out that the growing acceptability of cash loans among young Japanese has helped the six large consumer finance companies secure outstanding loans of Y2,892bn, or a 15 per cent increase on 1994.

Furthermore, the decline interest rates which has not been accompanied by a comparable fall in the rates charged by consumer finance companies, has added to their profitability. A third factor has been the decline in default rates.

Although the pressure to re-pay debt has caused many suicides, and individual bankruptcies remain near a peak of 43,545 reported in 1993, default rates among consumer finance companies have declined as a result of tighter credit screening and smaller credit limits, says ING Barings.

Against this background, of spreading acceptance and need among Japanese consumers for quick, easy, small scale cash loans, and greater efficiency in the industry, the consensus is that the consumer finance industry is poised to continue expanding strongly.

Tokyo haulage worker: a burden worth carrying

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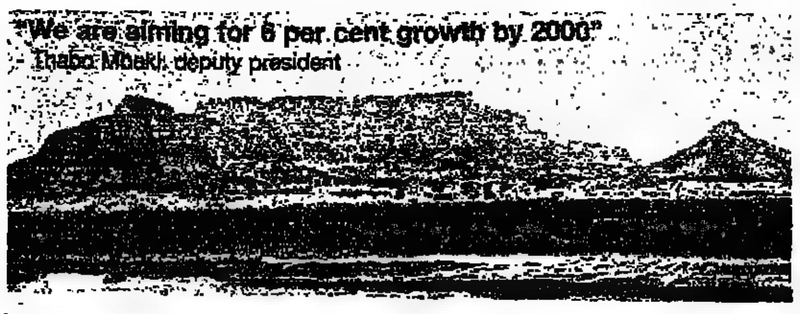
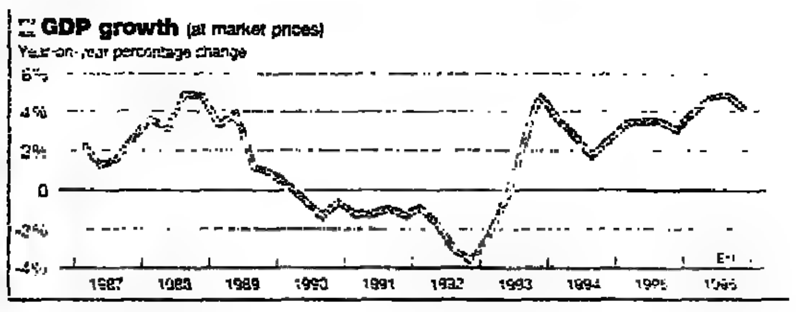
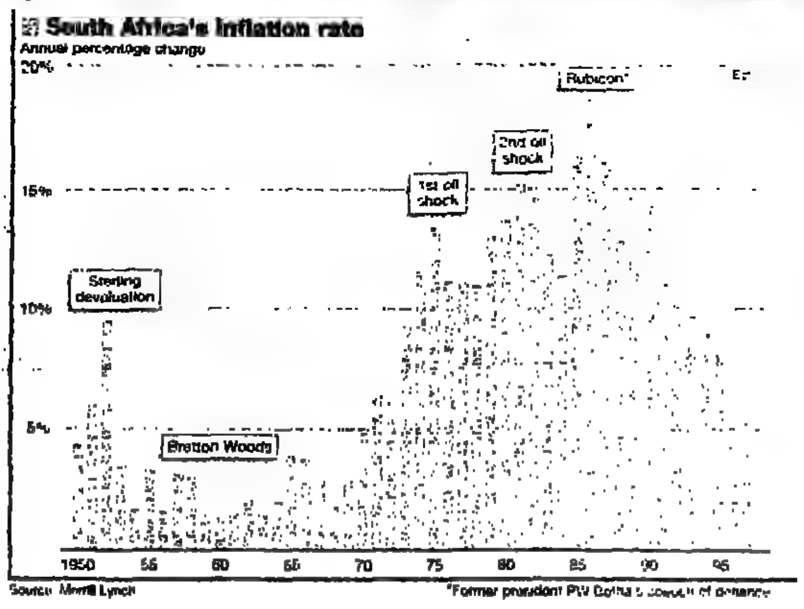
INVESTING IN SOUTH AFRICA

After the miracle, the impossible

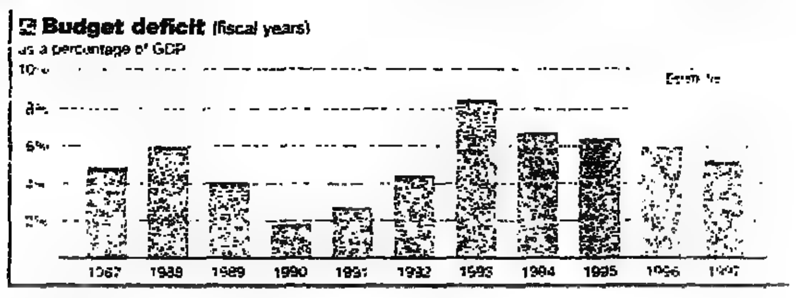
The biggest challenge facing the nation is to reverse the unemployment trend, writes Roger Matthews

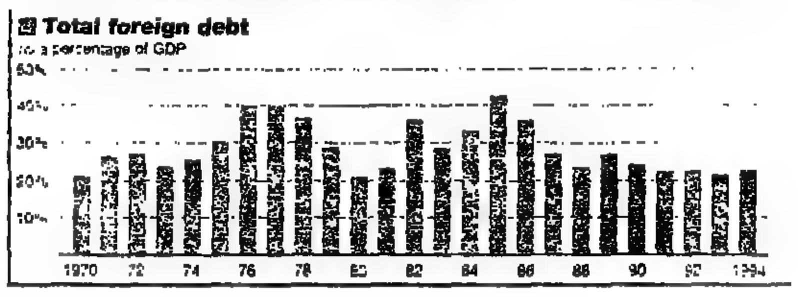






Source: Merrill Lynch
*Former president PW Botha's speech of defiance





The political euphoria that has enveloped South Africa for almost two years has not yet evaporated, but it is fast giving way to a more sombre mood as the immensity of the economic task ahead comes into sharper focus.

President Nelson Mandela has committed his final three years in office to what he does best: continuing the process of national reconciliation. But he acknowledged that his achievements will only be durable if accompanied by growth and development for all sections of society, and especially that half of the population which has an income of less than R300 (£50) a month.

There is broad agreement between the government of national unity and the private sector on the targets that have been set, and the serious constraints to growth which exist. The debate now being joined with growing vigour is how to reach those goals, and the balance to be struck between market-oriented policies, and the government's desire to achieve greater social justice.

The economy grew last year by 3.5 per cent, the best performance for nearly a decade, despite the drought which cut agricultural output. But, according to the Reserve Bank, the first three years of the economic upswing which started in the second half of 1993, produced a net gain of only 12,000 new jobs in the formal sector. Unemployment, officially measured at 33 per cent of the workforce, has therefore continued to rise.

If the present rates of economic growth continue, the South Africa Foundation, which represents the country's 50 biggest companies, forecasts that unemployment will increase over the next five years to 38 per cent due to the 300,000 or more new job seekers every year.

Ministers and industrialists agree that the nation's single biggest challenge is to halt and then reverse the unemployment trend. They also agree that a sustained annual growth of at least 6 per cent has to be achieved. Thabo Mbeki, the deputy president, said last month: "The preconditions for lifting the growth rate to the 6 per cent target by 2000, and creating 300,000 to 500,000 new jobs a year, are an increase of approximately 10 per cent a year in non-gold exports, and major investment by both the public and private sectors".

The government's fiscal deficit, and South Africa's low savings rate, suggests that much of that required investment will have to come from overseas. So far the response, other than a strong appetite for equities and bonds which last year played a big role in boosting capital inflows to more than R20bn, has been modest.

The ministry of trade and industry estimates that foreign companies have invested more than R3bn in fixed assets since the April 1994 general election, mainly through the return of companies such as Ford. However, a growing number of companies are establishing offices for the first time, and total new investment plans are estimated at more than R6bn.

Trevor Manuel, the minister of trade and industry, says one of the toughest problems encountered by potential foreign investors is the grip that South Africa's largest conglomerates have on the market. Tougher legislation aimed at countering any abuse of market dominance is due this year. But the conglomerates say their relative dominance has been achieved by efficiency and competitiveness, and it is these qualities which have deterred foreign rivals.

The government's problem in contributing more than a modest amount to the investment requirement was underlined by this month's budget. Chris Liebenberg, the minister of finance, announced a lower fiscal deficit target of R28.8bn, 5.1 per cent of gross domestic product, but a higher cost of servicing government debt which will absorb one rand in every five that are collected.

Increasingly, government is having to borrow to finance current expenditure while the amount earmarked for capital expenditure in the new financial year has fallen from 2.7 per cent of GDP to 2.5 per cent, less than half the projected fiscal deficit.

Arguing for deeper cuts in the deficit, Dave Mohr, chief economist at Old Mutual, said: "Large deficits crowd out private sector growth and investment. The government hijacks too large a proportion of productive resources and capital, leaving little for private sector expansion."

This problem is exacerbated by South Africa's poor savings record, described by Chris Stals, the Reserve Bank governor, as "a very important structural deficiency". He said gross domestic saving had fallen in the first nine months of last year to 16.7 per cent of GDP, compared to 17.2 in the same period the previous year.

"Macro-economic analysis shows that if we want to maintain growth of anything like 5 per cent then we must save at least 25 per cent of our total income. Fast-growing economies in the Far East have been saving more like 35-45 per cent of their GDP. Last year South Africans saved on average just R2 out of every 100 they earned"

These concerns, allied to fears about the political stability after the departure of Mr Mandela, appear to have had a greater impact on potential foreign investors than on local companies. Gross domestic fixed investment rose by 10.5 per cent last year, the value of imports surged by 29 per cent largely due to replacement of out-dated machinery, and exports rose by nearly 20 per cent. Business confidence remains high, although there is evidence that some companies are close to the limit of manufacturing capacity.

If this does lead to growth peaking at about 4 per cent, the government will have to pay more attention to the concerns of investors, while seizing on its comparative international advantages. Apart from deep cuts in the budget deficit, the South Africa Foundation has called for more flexible labour markets, a rapid privatisation programme, the dismantling of exchange controls, a reform of the tax system, tough action on crime, and the creation of a social safety net to catch those in greatest need.

Tito Mboweni, the labour minister, dismissed the foundation's proposals as "ridiculous", particularly its idea of allowing some workers to be employed outside the provisions of the new labour law to be enacted soon. But the differences between government and business may be narrower than they seem on some issues, and be more about timing then direction.

The government is committed to removing exchange controls, which it knows are not liked by investors, and has taken the first steps. But it has rejected a "big bang" because of the dangers that, should it backfire, the impact of reimposing controls would be disastrous for investor confidence.

It has adopted the same gradualist approach to privatisation, where ideology and the unions provide an additional obstacle. Telkom is likely to be the first state enterprise to take a foreign minority equity partner. The process will accelerate as government and unions are forced to accept that the ambitious development programme, particularly the goal of building 200,000 houses annually over five years, cannot be achieved without greater private sector involvement.

The dismantling of foreign exchange controls will also create more opportunities for foreign investors as the biggest conglomerates, especially those with strong mining interests, liquidate assets to expand overseas. Other areas opening up include tourism which, despite South Africa's natural advantages, contributes just 2 per cent of GDP, compared to the international average of 6 per cent. Mr Mbeki said that in [illegible] the [illegible] average, the [illegible] create [illegible]

South Africa is also [illegible] itself as the [illegible] way to the [illegible] African Development [illegible] with its [illegible] 100m or even [illegible] south of the Sahara with a population of [illegible]. South Africa dominates Africa [illegible] but its trade links are modest. It imports 4 per cent of its requirements from the rest of Africa, and sells 11 per cent of exports into the region.

Most of this would have been unthinkable a few years ago, along with Cuban doctors in Johannesburg hospitals, the communist party helping to shape government policies, and Mr Mandela [illegible] a South African victory in the rugby World Cup. The economic trophies are also there to be won, but at the cost of additional pain which the government would rather its supporters did not have to bear.

IN THIS SURVEY

Editorial production: Roy Terry
Statistical research: Abdul Benzin

Republic of South Africa
£100,000,000
9.375% Notes due 2006
J.P. Morgan Securities Ltd. acted as joint-lead manager and bookrunner on this transaction.
JPMorgan
January 1996

European Bank for Reconstruction and Development
ZAR 250,000,000
14.75% Notes due 1998
J.P. Morgan Securities Ltd. acted as lead manager and bookrunner on this transaction.
JPMorgan
October 1995

ESKOM
Global Depositary Receipt Facility
Morgan Guaranty Trust Company of New York acted as Depositary Bank on this facility.
JPMorgan
September 1995

ESKOM
U.S.$100,000,000
5 year Revolving Credit Facility
J.P. Morgan Securities Ltd. acted as the arranger and Morgan Guaranty Trust Company of New York as Agent Bank on this transaction.
JPMorgan
May 1995

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The economy: by Roger Matthews

Consolidating the successes

Mr Liebenberg's budget underlined how little room there is for manoeuvre

Growth last year at 3.5 per cent was the highest since 1988, inflation at 8.7 per cent the lowest since 1972, and business confidence is at its most buoyant for more than a decade. These are achievements in which the government of national unity takes pride as it enters its third year in office, with the additional bonus of an established reputation for fiscal discipline, acquired despite the inevitable costs incurred by the political transformation of the nation.

It may seem perverse to the African National Congress and to Chris Liebenberg, the minister of finance, that this should also be the moment at which the most serious criticism of the government's economic policy should be voiced for the first time. The South Africa Foundation, which represents the country's biggest 50 companies, argued in its document "Growth For All", that the euphoria over the political change was drawing attention away from the country's immense economic challenges. "If these economic challenges are not met, and economic policy is not transformed, then the world will forget about the political miracle before long, because its economy will have failed," it warned.

Both sides broadly agree on the objectives spelled out by Thabo Mbeki, the deputy president, who is in overall charge of economic policy. He said the goal had to be annual growth of at least 6 per cent by 2000, the annual creation of 300,000 to 500,000 jobs, and the provision of basic household infrastructure for the entire population by 2005. The gap that divides government and business is the assessment of how this should be done, and what is politically possible.

Mr Liebenberg's budget, the third introduced by the present government, underlined how little room there is for manoeuvre. Faced by a deficit equivalent to 6 per cent of gross domestic product, and continued strong pressures on spending, he produced a cautious document aimed at consolidating the successes already achieved. The new target for the fiscal deficit was set at R28.8bn, or 5.1 per cent of GDP, achieved largely through a R1.9bn sale of strategic oil reserves, and a hoped-for R1.5bn increase in revenue collection. But the government balked at a 1 per cent increase in the level of value-added tax following strong opposition from the unions. Had Mr Liebenberg been allowed to increase VAT to 15 per cent, the deficit could have been brought down to below 5 per cent, a target that he acknowledged might be more desirable.

> Business confidence is exceptionally buoyant

Chris Stals, the governor of the Reserve Bank, has pointed to growing evidence that the present recovery, which began in the third quarter of 1993, is showing signs of slowing, particularly in the manufacturing sector, and that 1996 could see growth reach a peak of about 4 per cent. Mr Liebenberg added in his budget speech: "As the international growth outlook has become less favourable, we are mindful that the budget deficit reduction should occur more rapidly than the 0.5 percentage point per annum originally targeted." But he stuck by his contention that "gradualism" had to be maintained because "a drastic reduction in the deficit would require ill-considered and disruptive curtailment of public services".

One result of this gradualism is a further increase in the cost of servicing government debt, which is set to rise to nearly 20 per cent of total revenue in the financial year beginning on April 1, compared with 18.5 per cent the previous year. As Mr Liebenberg pointed out, the main effect is to "crowd out other expenditure items and to increase the lack of fiscal manoeuvrability". Total government debt is projected at R311.6bn, or 55.6 per cent of GDP.

According to the South Africa Foundation, this is a dangerously high figure, and it warned that "the budget deficit could balloon in the next and inevitable economic downturn". It urged an annual budget deficit reduction of 1.5 per cent of GDP, to be maintained until it reached 3 per cent, "in line with recent international norms". To achieve this it suggested a reduction of 4 per cent in government spending as a percentage of GDP over the next two years, with up to 150,000 jobs being cut over five years.

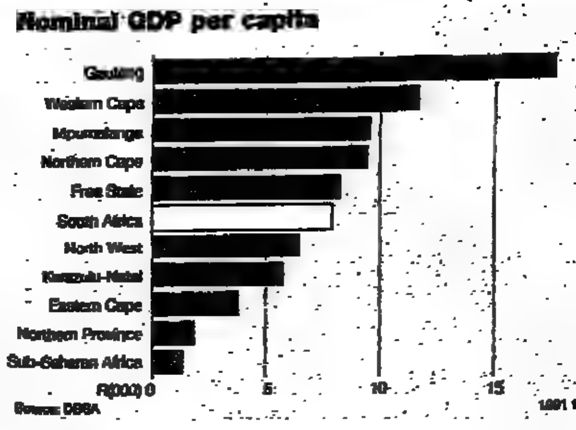
Private sector economists also pointed out that with the government's salary bill amounting to some 40 per cent of its spending there is increasingly little left for capital expenditure. Mr Liebenberg agreed it was cause for concern that budgeted capital expenditure would decline from 2.7 per cent of GDP to 2.5 per cent in the new financial year. This is in part explained by the slow delivery of some government programmes, particularly housing which was far below target and contributed substantially to nearly R10bn in budget roll-overs.

All of which left Mr Liebenberg with little scope for providing relief for the hard-pressed tax payer, or offering investment incentives to the private sector. By raising the threshold at which the top marginal tax rate of 45 per cent takes effect, he was able to provide some benefit to lower and middle income groups, but the introduction of a 17 per cent tax on the monthly gross interest and net rental income of pension, provident and retirement annuity funds, will claw some of that back and will do *nothing to encourage* the urgently needed increase in overall national savings. Mr Liebenberg's present for investors came with a 50 per cent reduction in the secondary tax on companies, essentially a levy on dividends, to 12.5 per cent, and a halving of the tax and stamp duty on share dealings to 0.5 per cent. The total cost to the exchequer was a modest R350m.

There was also little scope in the overall spending increase of 10.4 per cent for individual ministries, with defence suffering most with another 5 per cent reduction, and education coming off best with its allocation increased from R4.3bn to R5.5bn.

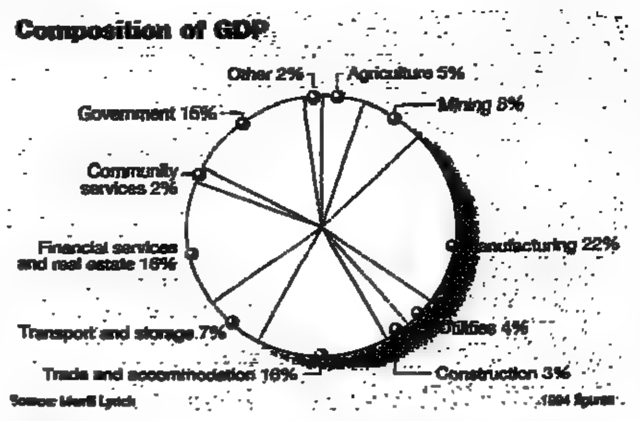
If, as Mr Liebenberg pledged, the main government focus this year will be on implementation and delivery, the impact of its policies should be more visible among the poorest sections of society. "They have been waiting patiently for results and we owe them that", he said. But the government's ability to continue delivering will be decided by its response to the challenges outlined by the SA Foundation, especially if the growth rate slows in the second half of the year.

Nominal GDP per capita



Source: DBSA 1991 figures

Composition of GDP



Source: Merrill Lynch 1994 figures

Industry: by Mark Ashurst

Shock therapy to lure investors

The country may be looking good but attractive figures are no guarantee of good health

For an economy that *contributes a mere 1.5 per cent* of the world's goods and services and depends on an ailing gold industry for the largest slice of its foreign exchange earnings, South Africa looks pretty good from the outside. Excluding gold and agriculture, GDP growth was more than 5.5 per cent last year, while inflation fell.

"That is what investors look for. We are slowly but surely putting investment back into the system," says Cees Bruggemans, group economist at First National Bank. But attractive figures are no guarantee of good health.

At least 160 companies which disinvested during the apartheid era have returned to take a second look, but few have committed themselves to any long-term investment.

Less than R5bn of foreign capital was sunk in fixed *investments last year*, although foreign inflows topped R22bn.

More than 80 per cent of this capital was absorbed by the equity and bond markets, where its fickleness was graphically illustrated during last month's devaluation of the rand. An estimated R7bn left the country in a single week.

In contrast to the trickle of investment from foreign companies, domestic fixed investment has soared. In 1995, it totalled R55bn, a year-on-year rise of about 10 per cent.

In the crucial manufacturing sector, new investment by private companies increased 21 per cent to R15.8bn on the strength of the economic boom, sustained growth and a widespread capacity shortage. About one third of capital expenditure in 1995 was *absorbed by replacement infrastructure* rather than by new development.

The South Africa Foundation, which represents the 50 largest businesses, estimates private sector saving is about 18 per cent of GDP, a level that compares unfavourably with the 35 per cent average in the tiger economies of south-east Asia.

Corporate tax rates are also higher than in the emerging markets of south-east Asia and the former eastern bloc, despite a 50 per cent drop in the secondary tax on company (STC) dividends to 12.5 per cent in the March 13 budget.

"Abolishing STC would place South Africa on a par with countries such as Argentina, Colombia, Mexico, Peru, Sweden and Switzerland," comments Leslie Boyd, chairman of Amic, the industrial *arm of Anglo American*. "But it would still leave us at a disadvantage, at times up to 50 per cent, compared with countries that compete directly for western capital."

Drastic policy changes are under way to promote international competitiveness. The principles of self-sufficiency and demand side incentives which characterised policy in the past have been scrapped in favour of what might aptly be described as industrial shock therapy.

High import tariffs are being phased down to levels specified in the General Agreement on Tariffs and Trade. The remnants of the General Export Incentive Scheme of cash rewards to exporters was scrapped this month, although there is little clarity on an alternative system of supply side incentives.

A competition policy to address the role of conglomerates in the domestic economy will be unveiled later this year, *in the wake of* complaints by Trevor Manuel, minister of trade and industry, that some of the largest holding companies have abused their dominant positions.

The national priority is job creation. Paul Jourdan, special adviser to Mr Manuel, notes that South Africa's "capital-intensive raw material producers that are in the first quartile of international competitiveness. Employment lies in downstream, high value-added industries which exploit our resource and energy advantages". This categorisation of industry into sectoral clusters, each comprising "upstream" and "downstream" products, underpins the government's industrial strategy.

The 13 clusters targeted by Mr Manuel can be further classified into three types: those which could not withstand international competition, such as textiles or motor vehicle manufacturing, and therefore required "fire-fighting" reforms; those with undeveloped downstream potential, such as petrochemicals or processed metals; and capital goods, notably industrial equipment developed in the mining industry, which Mr Jourdan describes as "more important than the resources themselves".

The most visible reforms to date have been in the capital intensive liquid fuels and motor vehicle industries. Sasol, which manufactures synthetic fuels from coal, will lose R3.4bn by 2000 as the government phases out its annual R1.1bn subsidy and lifts restrictions that prevent oil-importing companies from buying crude stock on international markets.

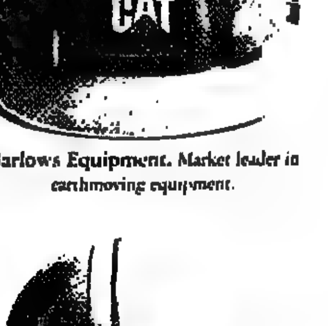
As a strategic energy reserve developed in the heyday of apartheid, analysts estimate Sasol has absorbed R50bn in government capital. Consequently, it supplies the polymers used to manufacture value-added plastics, a by-product of its unique manufacturing process, at very low cost. In partnership with Anglo American subsidiary AECI, Sasol plans to exploit this competitive advantage by shifting its business to the labour-intensive chemicals sector.

> Policy changes are under way to promote competitiveness

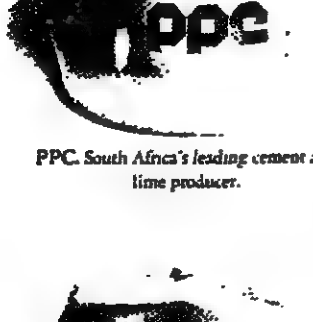
Motor vehicle manufacturers, previously protected by tariffs as high as 125 per cent on imported vehicles, have also been shaken by the Motor Industry Development Plan introduced in September. With only 48 per cent of the parts used in a locally-assembled vehicle manufactured in South Africa, the plan allows South Africa's seven domestic car manufacturers to waive duty on imported components to the exact value of their exported goods.

Import duties will also be reduced to the Gatt level of 40 per cent by 2002. The realisation that local plants will not survive these changes without longer production runs and higher exports has prompted R2.5bn in foreign investment from BMW, Toyota and Nissan. Samcor, a joint venture between Amic and the Ford Corporation, will become the world's sole supplier of 1.4-litre Escort engines.

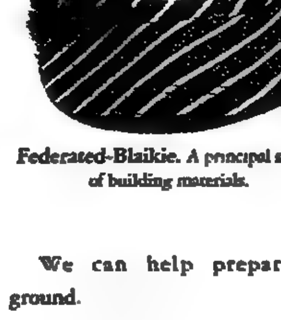
No one's put more heads together to help build the new South Africa.



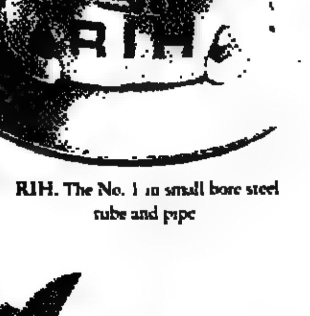
Barlows Equipment. Market leader in earthmoving equipment.



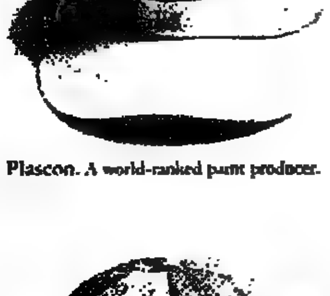
PPC. South Africa's leading cement and lime producer.



Federated-Blaikie. A principal source of building materials.



RIH. The No. 1 in small bore steel tube and pipe



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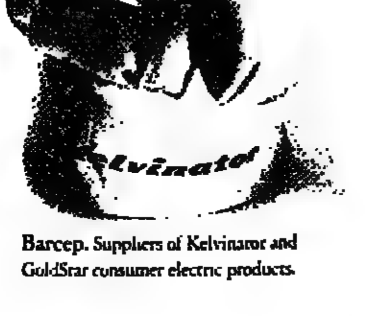

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Hambros has recently opened an office in South Africa, a further step in Hambros' long-standing commitment to and involvement with the country. Known as Hambros South Africa, the office provides corporate finance, project finance, development capital, bonds, treasury, derivatives and general banking services to South African and international clients.

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Privatisation: by Roger Matthews

Sell-off moves start

The process outlined for privatising Telkom could pave the way for similar exercises

The government has decided that private capital must play a key role in developing the public sector, and that some state enterprises will have to be privatised.

What remains to be seen is whether it can persuade its sceptical trade union allies, or, failing that, if it has the political determination to press ahead in the face of strong opposition.

The overall process, described officially as the restructuring of state assets, had been making only modest progress until early December when Thabo Mbeki, the deputy president, announced that Telkom, the state telecommunications company, and South African Airways, would both seek minority equity partners. He also revealed that two small regional airlines, and Autonet, the state road haulage company, would be sold off.

The government also listed public companies according to the degree of public policy that was involved as a further step in the comprehensive review of the state sector being undertaken by six task teams.

The Congress of South African Trade Unions (Cosatu) was outraged, claimed it had not been properly consulted, threatened a one-day national stoppage, and succeeded in winning a moratorium on further action while a new set of guidelines was negotiated with a cabinet committee.

It also won a R10m grant from the government to appoint its own specialist advisers. The outcome was a government-union agreement to examine each case on its merits.

The first of these is now ripe for a decision. Pallo Jordan, the minister of posts and telecommunications, wants soon to begin the process of choosing from several international consortia an equity partner for Telkom which is expected to be offered an initial 20 per cent shareholding.

> A 20 per cent shareholding in Telkom has been proposed

A white paper, recently issued by the minister, spells out in detail a six-year process which allows Telkom a period of exclusivity after which a registrar, yet to be appointed, would oversee a progressive liberalisation.

The timetable would be set to allow potential competitors to plan their entry to the market and their investment requirements.

The aim is to provide a universal service, towards which the immediate goal is an additional 1m lines in five years, while securing access to the technology which will allow South Africa to keep pace with world developments. The cost of installing 1m new lines alone is estimated at R6bn. The white paper warned: "The new market structure is largely contingent on the assumption that Telkom will be able to access sufficient capital. If it cannot, because of non-resolution of the ownership question, the scenario will be seriously compromised and will have to be reformulated." In other words, if Telkom cannot secure a large injection of private sector capital, it cannot meet the demands of government, or the people.

So clear-cut is the Telkom case that failure to implement the policy outlined in the white paper would represent a severe setback for the entire state sector reform process. But if successfully implemented it could pave the way for a series of similar exercises.

These could simultaneously serve the government's aim of encouraging the development of black-owned businesses, provide a new avenue for foreign investment, and generate funds urgently needed to reduce the state's debt-servicing burden.

Johannesburg Stock Exchange by John Kingman

Doors thrown open to the world

The exchange's members had to accept that the case for change was overpowering

Like the rest of the South African economy, the Johannesburg Stock Exchange is fast opening up to the world.

Johannesburg's answer to London's "Big Bang" is in full swing. Traditional "open outcry" floor trading is disappearing in favour of electronic screen-based dealing. Fixed commissions are being abolished. For the first time, corporate members are being admitted.

For many brokers on the exchange, previously a close-knit club, this process of change has been traumatic. Opening the exchange means they will face far greater competition. It is also likely to mean a sharp drop in commissions. Once they are fully negotiable, brokers estimate, institutional commissions could easily drop by a third.

Despite all this, the exchange's members had to face up to the fact that the commercial case for change was overpowering. Once exchange controls are lifted, domestic investors will be free to buy South African shares in exchanges overseas. If the JSE had chosen to keep its commissions high, business would have drained elsewhere.

Roy Andersen, president of the exchange, puts it starkly: "our biggest competition is in London." Shares in 80 of the 610 South African companies listed on the JSE are already traded in London.

But the competitive threat could just as easily have been closer to home. Frustrated at their exclusion, a group of South Africa's banks openly threatened at one point to set up their own rival exchange.

Whether or not this threat was serious – some doubt it – the banks certainly succeeded in calling the brokers' bluff. Their threat is seen as having made reform unavoidable.

There were, though, powerful political considerations. The exchange was not only a closed club, but a conspicuously white one. Refusing to admit outsiders would have left it conspicuously exposed in the new South Africa.

More mundane forces than this were also at work when the exchange's members voted overwhelmingly for reform last year. Most obviously, many member firms had a direct financial interest in supporting change.

Opening the exchange to corporate members has allowed the biggest firms to sell all or part of their holdings to large international investment banks – at handsome prices. Large stakes in the biggest firms – Smith Borkum Hare, Simpson McKie, Fleming Martin and Ivor Jones – are now held by international banks: Merrill Lynch, HSBC James Capel, Flemings and Deutsche Morgan Grenfell respectively. For those who owned the old firms, the prospect of lavish offers from foreign buyers must have sweetened the pill of reform.

The international banks, by contrast, have bought into businesses whose profits are threatened from three sides. Now that others are allowed into the market, the total fee income cake will have to be divided into smaller pieces. On top of that, competition will inevitably drive commissions down, reducing the overall size of the cake.

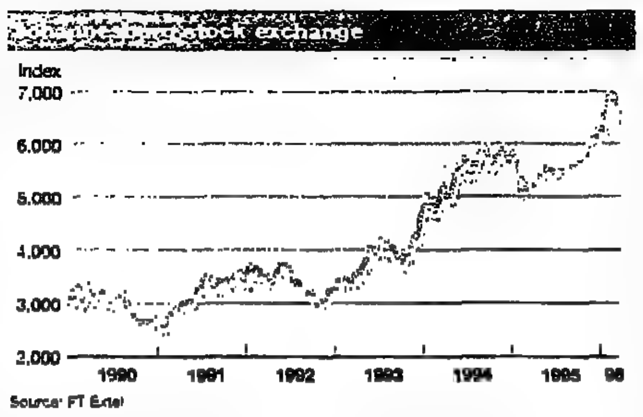
Just as important, though, will be the impact of deregulation on brokers' biggest cost: their staff. New entrants to the market need good people, and such individuals are suddenly at a premium. There is a particular shortage of high-quality research: as a result, the chief executive of one large firm estimates, salary levels for top-rated local analysts have doubled or tripled since the reform process started.

Moreover the new freedom for brokers to trade on their own account, as well as their clients', means taking much bigger risks than brokers have tended to accept in the past. As one broker says, "the problem is that we shall be forced into proprietary trading to sustain our profit margins". For those who get it wrong, the scope for losing large sums is considerable.

The obvious beneficiaries of all these changes will be investors, both foreign and domestic. Competition for their business will be intense; in theory at least, the quality of service should be driven up as prices are driven down.

The changes will not solve everything. The reform package will not, on its own, sort out the exchange's most fundamental problem: its illiquidity. Although the JSE is the world's 12th largest stock exchange by market capitalisation, only 10 per cent of the listed shares are traded.

For investors, this can be a serious problem. There are, though, some encouraging signs. Ten per cent is at least ahead of last year's figure of 6 per cent. Moreover one aspect of the reforms – allowing brokers to trade on their own account – should help a little. In addition, this month's budget included a measure which should be a significant boost to liquidity: the halving of South Africa's tax on share dealings from 1 per cent to 0.5 per cent.



Source: FT Extel

But solving the illiquidity problem is likely to take more than this: its roots lie in the high proportion of shares held, and rarely traded, by a few big companies. As Roy Andersen puts it, "South African companies have tended to invest in everything here that moves". A little under 80 per cent of shares on the exchange are controlled by just five groups.

Many in the market have high hopes that, as exchange controls are lifted, these companies will have a strong incentive to liquidate some of their local holdings in order to finance investment abroad. South Africa's big insurers, in particular, have so far had no choice but to keep most of their funds in the country: if only to spread their risks, they are likely to shift funds abroad once they are free to do so.

The risk is that, as this process unravels, share prices in the market could also suffer. Valuations are already fairly strong: share prices in the market are 15 times this year's expected earnings, although this does not look out of line against the prospects for earnings growth, which are also high by international standards.

Worries over the unravelling of the "hothouse effect" created by exchange controls means some foreign investors will inevitably remain wary of South African shares until exchange controls disappear and the fallout, if any, can be quantified. But many others have been tempted already: foreign investors were net buyers of R4.8bn ($1.22bn) worth of South African shares in 1995.

South Africa's inclusion in a number of emerging markets indices is part of the reason. Others are attracted by the country's relatively buoyant economic growth. The end of apartheid, and the arrival of democracy, has also removed a substantial obstacle for many investors.

In its modest way, the stock exchange's own process of root-and-branch upheaval and reform is an apt response.

PROFILE Shell South Africa

This company stayed . . .

Shell South Africa, a wholly-owned subsidiary of Royal Dutch Shell, has maintained a constant presence since 1912 and is now its second biggest oil company with turnover last year of R4.5bn.

The legacy of oil sanctions imposed by the United Nations during the apartheid era is an oil industry that counts seven domestic oil companies but has known no competition.

Each company is bound by law to purchase crude stock in proportion to its market share from Sasol, a synthetic fuels producer which manufactures crude from coal.

All other crude stocks are imported and retail pump prices are set by the Central Energy Fund (CEF), which manages the country's strategic oil reserves.

Koosum Kalyan, general manager of Shell SA, says it is a highly efficient environment. The Durban refinery which Shell co-owns with British petroleum is "one of the most capital-intensive and technologically advanced refineries in the world". Profit margins, fixed by the CEF at a flat level for all companies on the basis of a nominal import price, are "very low".

> The oil industry in South Africa has known no competition

The 1993 Oil Petroleum Act lifted the veil of secrecy shrouding the industry and laid the foundations of a more competitive market. Oil companies can now bid openly for crude oil imports on the international market.

"There are now monthly adjustments to the pump price, and more transparency. We welcome further deregulation and we believe there will be new entrants to the market in the years ahead," says Miss Kalyan.

Shell is increasing capacity at its Durban plant to meet the growing demand for liquid fuels, a market which is growing by 5 per cent a year. Meanwhile, the industry growth rate was 10 per cent last year, reflecting growing confidence in the deregulation process which is widely expected to result in the phasing-out of price controls by 2000. With a South African market share of 18.5 per cent, Shell's net income last year was R230m after tax, about 1 per cent of Royal Dutch Shell's total earnings.

Miss Kalyan says Shell South Africa is "vulnerable" to the controversy over the role of its parent company in Nigeria, although it does not import any crude stocks from mainland Africa. She says there has been no drop in local sales.

Mark Ashurst

Exchange controls: by Roger Matthews

Not whether, but when

The government has opted to lift controls gradually rather than in a single stroke

"In order to improve the investment climate, the monetary authorities are reviewing, on an on-going basis, the timing and the pace of lifting existing exchange controls. For us, it is not a matter of whether, but of when these controls will be phased out."

President Nelson Mandela's speech to parliament in February remains the most authoritative statement of government policy on the issue of exchange controls, and one that does not appear to have been dented by the sudden dip in the value of the rand later that month.

Chris Stals, the governor of the Reserve Bank, and Chris Liebenberg, the finance minister, will jointly advise the government on the pace at which exchange controls should be dismantled.

While they remain in office international and local speculation about an imminent "big bang" announcement will be misplaced.

They have repeatedly made clear their belief that investor-friendly countries do not have exchange controls, but the risks for South Africa in abolishing them at a single stroke are too great for the government to contemplate.

Instead, they intend to pursue the gradualist approach already charted. Just over a year ago the financial rand, which protected the economy against the sudden outflow of foreign funds, was smoothly abolished.

The Reserve Bank has since largely withdrawn from providing forward cover for exchange dealings, and introduced the concept of "asset swaps" whereby local fund managers can exchange assets with foreign counterparts seeking to invest in South Africa.

> After the Mexican experience care is needed

Mr Stals said recently that applications for more than R10bn in asset swaps had been received.

The next step, forecast by Mr Stals during a hearing of the parliamentary finance committee, will be to allow fund managers to invest up to 3 per cent of new receipts overseas. At the same time the Reserve Bank has also signalled its willingness to be more sympathetic to companies seeking permission to invest overseas, provided the applications meet established criteria.

Greater flexibility is particularly being shown to companies wanting to invest in South Africa's immediate neighbours.

The pace at which further relaxation takes place will be dictated by both political and economic considerations. Continued political stability is an obvious prerequisite, with the markets having shown their anxiety over ill-founded rumours about Mr Mandela's health.

It is also important that there should be no further deterioration in the political situation in the province of KwaZulu-Natal.

Mr Stals will also be watching the levels of reserves closely, and the continuing strength and composition of foreign capital inflows. These inflows topped R20bn last year and there was an encouraging move towards longer-term fixed investment.

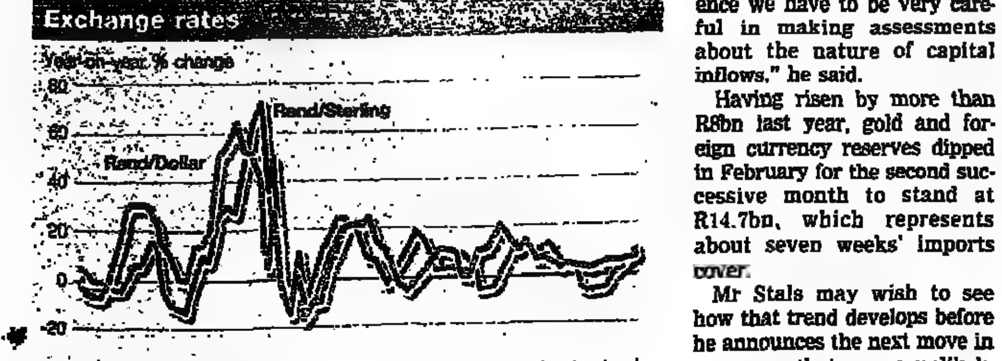
But Mr Stals has warned that it is increasingly difficult to define what is long term because of the pace at which the intentions of investors can change.

"After the Mexican experience we have to be very careful in making assessments about the nature of capital inflows," he said.

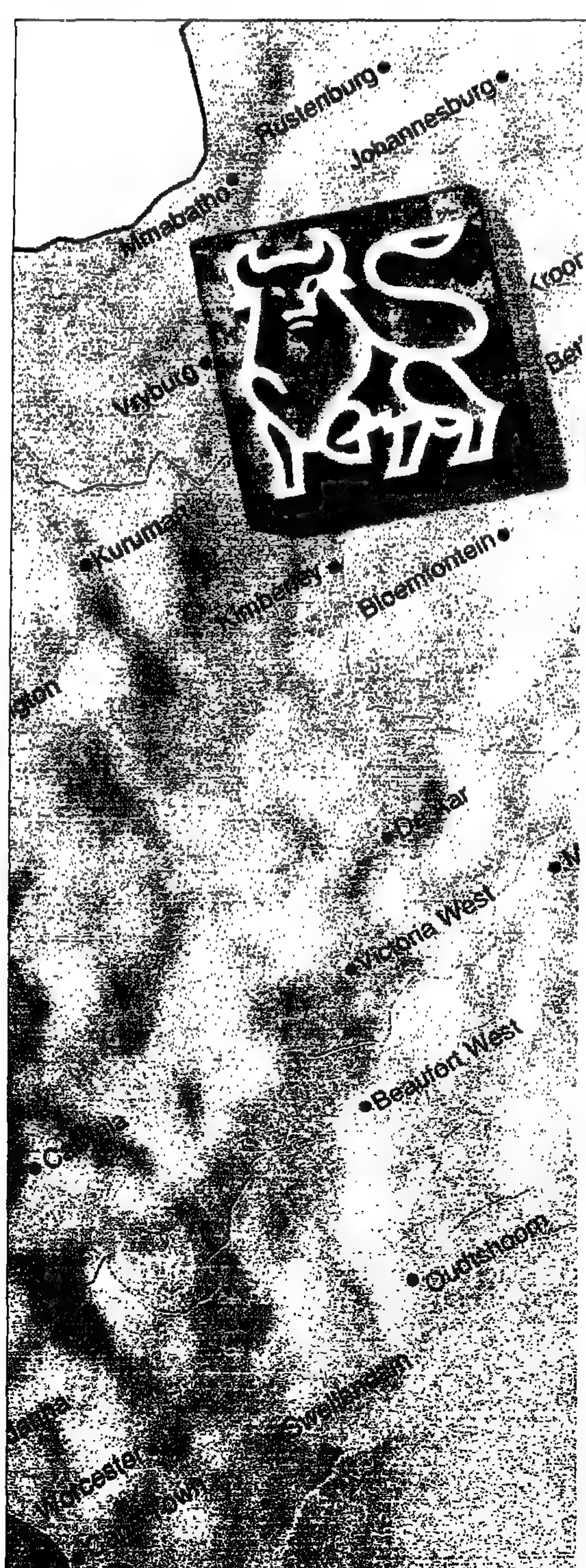
Having risen by more than R8bn last year, gold and foreign currency reserves dipped in February for the second successive month to stand at R14.7bn, which represents about seven weeks' imports cover.

Mr Stals may wish to see how that trend develops before he announces the next move in a process that seems unlikely to be completed within the next two years.

Exchange rates



Source: Merrill Lynch



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■ **Labour relations:** by Quentin Peel

The test is yet to come

New industrial laws aim to build on the remarkable improvement in labour relations

It is 7.30 in the morning, in the bustling hotel dining room of the Johannesburg Holiday Inn. Sam Shilowa, general secretary of the Congress of South African Trade Unions, is just sitting down to a working breakfast with top government officials *from the ministry of* trade and industry.

The subject for discussion is export incentives for South African industry. Mr Shilowa and his fellow Cosatu officials have strong ideas on reforms they want to see in the existing system.

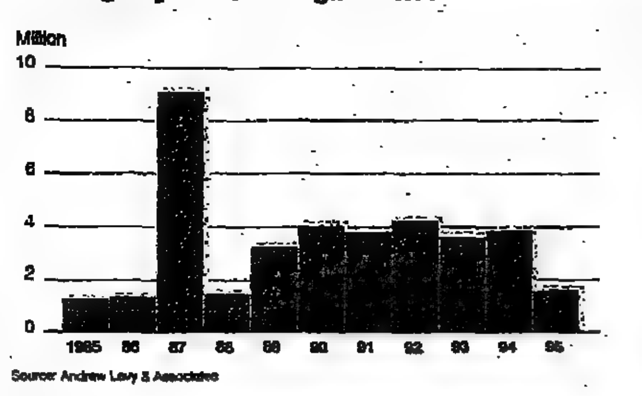
"We have a pretty indifferent export performance in manufacturing," says Ebrahim Patel, the youthful leader of the South African Clothing and Textile Workers' Union, and a leading Cosatu negotiator. "We want export incentives to be more targeted on improving competitiveness.

"The trouble with the present export incentives is that they are little more than a straight subsidy. When they are removed, exporters will find they are still uncompetitive. We need incentives to promote restructuring, new investment, and training."

The working breakfast was a graphic illustration of the close relationship between organised labour and the government in South Africa, a reflection of the formal alliance between *the African National Congress,* Cosatu, and the South African Communist Party. It also underlined the apparent pragmatism of the union movement, in spite of – or perhaps because of – a baptism in the fire of fierce opposition to the racial laws of apartheid South Africa over the previous two decades.

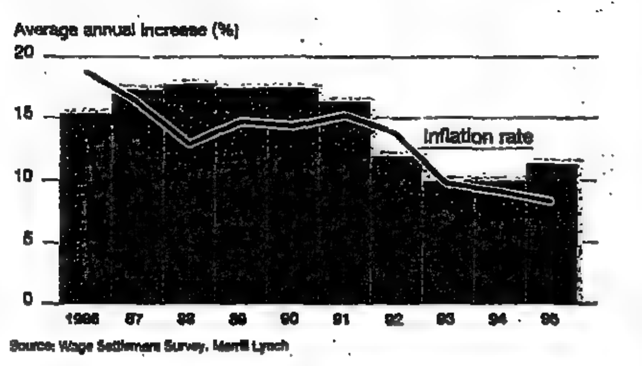
Earlier in the week, the same union officials had been locked in negotiations with Alec Erwin, the deputy finance minister *(himself a former top official in Cosatu)*, on final details of the government's budget. The trade unions successfully blocked any increase in indirect taxation, in favour of a tax on pension fund incomes.

Working days lost through strikes



Source: Andrew Levy & Associates

Wage settlements



Source: Wage Settlements Survey, Merrill Lynch

The relationship between the ANC-led government and the most important trade union federation in the country has been a critical element in the stability and direction of the regime in its first two years. It has undoubtedly contributed to a remarkable improvement in the climate of industrial relations over the past two years. Against most predictions, the *number of working days lost in* strikes dropped from 3.9m in 1994 to just 1.6m in 1995, which was the lowest level since 1988.

On the other hand, the close relationship between the trade unions and the government has stoked concern within the business community at the threat to corporate competitiveness of costly political concessions to their workers.

The business lobby is worried at the rise in real wage costs, and at the proliferation *of labour protection measures* pending in new legislation. Both pressures, businessmen fear, will discourage foreign investors and hamper indigenous industry from competing internationally.

According to the latest annual report of the SA Reserve Bank, the rate of increase of nominal wages per worker has slowed only very gradually over the past six years: from an annual increase of 18.4 per cent in 1989, to 15.2 per cent in 1992, 10.5 per cent in 1993 and up again to 11.9 per cent in 1994.

Real wages have been rising *faster than real* output per worker, leading to a strong increase in unit wage costs. "This development is not only harmful for economic growth, but may also have an adverse impact on rates of return on invested capital," the central bank says. "The decline in the inducement to invest will inevitably undermine the long-term growth potential of the national economy, and of employment growth."

Yet, given the dramatic *nature of the political change* in South Africa, the absence of a wage explosion is perhaps more remarkable than the fact that there has been a modest rise in real wages. Moreover, government, business and the trade unions have succeeded in forging an important organisation for debating the vast array of new legislation needed to replace the apartheid state, in the shape of Nedlac, the National Economic Development and Labour Council.

That was the forum which last year produced a new Labour Relations Act, due to come into full force from May 1, 1996, providing far-reaching protection for workers and trade unionists. It includes measures for the protection of *strikers, disclosure of information,* co-determination (through "workplace forums"), and promotion of centralised bargaining, all of which go beyond the rights even of workers in Scandinavia.

At the same time, however, there are signs of strain within the government-union relationship which suggest that it may well become less harmonious after the initial euphoria of majority rule has worn off.

The negotiating process for the Labour Relations Act saw bitter accusations from the unions of government duplicity, and a mass protest at the *failure of both business and* government to concede to union demands. Labour was calling for compulsory centralised *bargaining, and the right* to strike against unfair dismissals, as well as a ban on scab labour. Yet, on most of those scores, the government sided with the employers.

There has also been a significant shift in the focus of labour disputes, away from the private to the public sector: more than 70 per cent of the working *days lost in* 1995 were in the public sector. As the question of possible privatisation comes on to the government agenda – "This development ... " harmful for economic growth – under the guise of "restructuring" – that trend is likely to be accentuated.

The next big item on the labour agenda is a proposed new statute on employment standards. Already it is clear it will stop short of setting compulsory minimum wages throughout South African industry, for fear of choking off job creation. *It will seek to reconcile labour market flexibility* with protection at the workplace. Like so much else in the new South Africa, it will be a very tough balancing act to maintain.

■ **The bond market:** by John Kingman

Painful jolt ends bull run

February's sharp drop in the value of the rand brought an idyllic period to a close

To investors watching the Johannesburg Stock Exchange pushing itself into a new era, the bond market must seem another world.

Most of the innovations under way at the stock exchange have long been facts *of life for bond traders. More* than half of total bond trading is already screen-based. Corporate traders – principally banks – have a substantial presence, and market-making is well-established.

Most important of all, the bond market has much less of a liquidity problem. Trading volume in the largest issue, a long bond known as the R150, averages nearly 20 per cent of the total in issue.

The market is, however, heavily skewed towards government bonds – known, as in the UK, as gilts. The bulk of the rest are issued by "parastatals" *such as Eskom,* Transnet and Telkom.

So far, private sector corporate bonds have failed to catch on: *only* one company, *SA* Breweries, has yet made an issue of any size, and even that is rather illiquid.

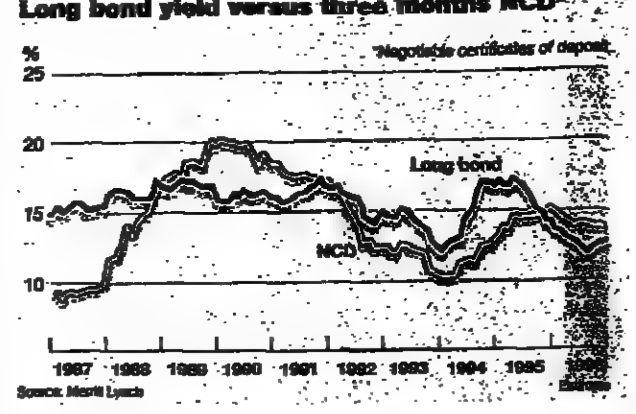
Although foreigners remain relatively modest participants in the market, accounting for only 8 per cent of trades since the beginning of the year, foreign buying has – until quite recently at least – been growing strongly.

Conditions for such an inflow could hardly have been more favourable. Early last year, as it became clear that the government's attempts to bring inflation under control were proving conspicuously successful, long bond yields were still hovering around 16.5 per cent. Against the backdrop of remarkable stability in the value of the rand, real yields on long bonds were the highest they had been for years, and were even beating *yields* in the equity market.

The result was a sustained bull run, bringing long bond yields down below 13.5 per cent. With the rand at the same time going through a period of real appreciation, foreign investors reaped handsome returns.

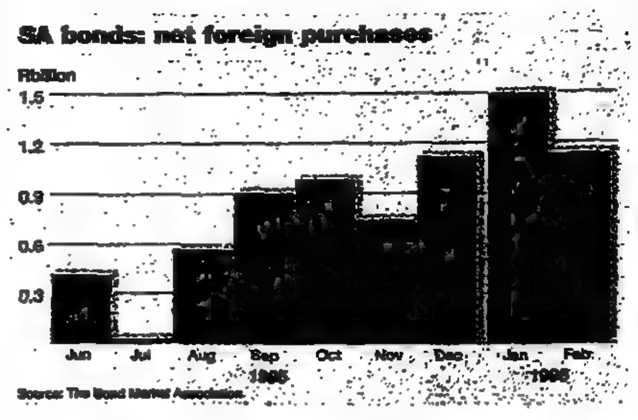
This idyllic set of circum*stances was brought to a close* with February's sharp drop in the value of the rand against the dollar; the currency lost more than 6 per cent of its value *in less than a day.*

Long bond yield versus three months NCD*



Source: Merrill Lynch

SA bonds: net foreign purchases



Source: The Bond Market Association

Just to make it worse, turbulence in currency markets coincided with a marked shift in sentiment in world bond markets.

South African long bond yields quickly went into reverse, climbing steeply and ending up close to 15 per cent.

Nor were jitters in currency and world bond markets the only factors at work. Fears of a tax on pension fund holdings, as recommended by the Katz commission, were also causing a stir in the market – as it turned out, justifiably so. The new tax – on pension funds' interest and rental income – was duly introduced, albeit at a rate lower than many feared, in this month's budget.

Altogether, the episode has been a painful jolt to the markets. Investors were reminded all *too* clearly that *yields* can go down as well as up. But despite it all, many economists are confident that yields need to start falling again.

Their analysis is rooted in a favourable view of the outlook for inflation. Headline inflation fell to 6.4 per cent last September and appears to have stabilised since then. Inflation is *widely expected to hover* around 7 per cent – a remarkably low figure by the standards of South Africa's high-inflation past.

This confidence in the future partly reflects widespread faith in the reserve bank and its governor, Dr Chris Stals. By keeping short-term interest rates high, Dr Stals has exerted a tight squeeze on monetary pressures in the economy. He shows every sign of continuing to do so.

But there are more fundamental reasons for optimism over the medium-term inflation outlook. As South Africa's economy opens up, competition will continue to exert powerful downward pressure on prices.

The government is aggressively dismantling tariffs on foreign imports: this makes it much more difficult for South African companies to charge prices which, in many sectors, are high by international standards.

According to one study, by the Industrial Development Corporation, compliance with the general agreement on tariffs and trade (Gatt) should cut South African inflation by nearly 5 percentage points.

Deregulating the domestic economy should also help: phasing out agricultural control boards, for instance, *should cause food prices to fall.*

For investors who agree with this view of the prospects for inflation, bonds certainly look cheap. Or at any rate, real yields of around 7-8 per cent look conspicuously high.

This is particularly true given international markets' growing confidence in the South African government. The most obvious yardstick – the spread between 5-year dollar-denominated South African bonds and US Treasuries – has narrowed to around 160 basis points.

Few in the markets would take serious issue with this analysis of economic fundamentals. They might, though, counter that, in the short term at least, economic fundamentals are arguably less powerful *movers of bond markets than* the balance of supply and demand. In the South African market, there is still a great *deal of supply.*

The reason is the country's persistent budget deficit. Although this was cut a little in this month's budget, it is still projected to be 5.1 per cent of gross domestic product in the next financial year. It is true that the bond market reacted favourably to this figure – but only because investors feared it could have been even worse.

Few investors doubt that the government would like to cut the deficit. But *the obstacles* to tackling it are all too real. South Africa's social problems make it difficult to avoid letting public spending grow faster than inflation. *To an* extent, the government can bridge the gap by increasing taxes even faster. But its ability to do so is constrained by its need to avoid discouraging investors.

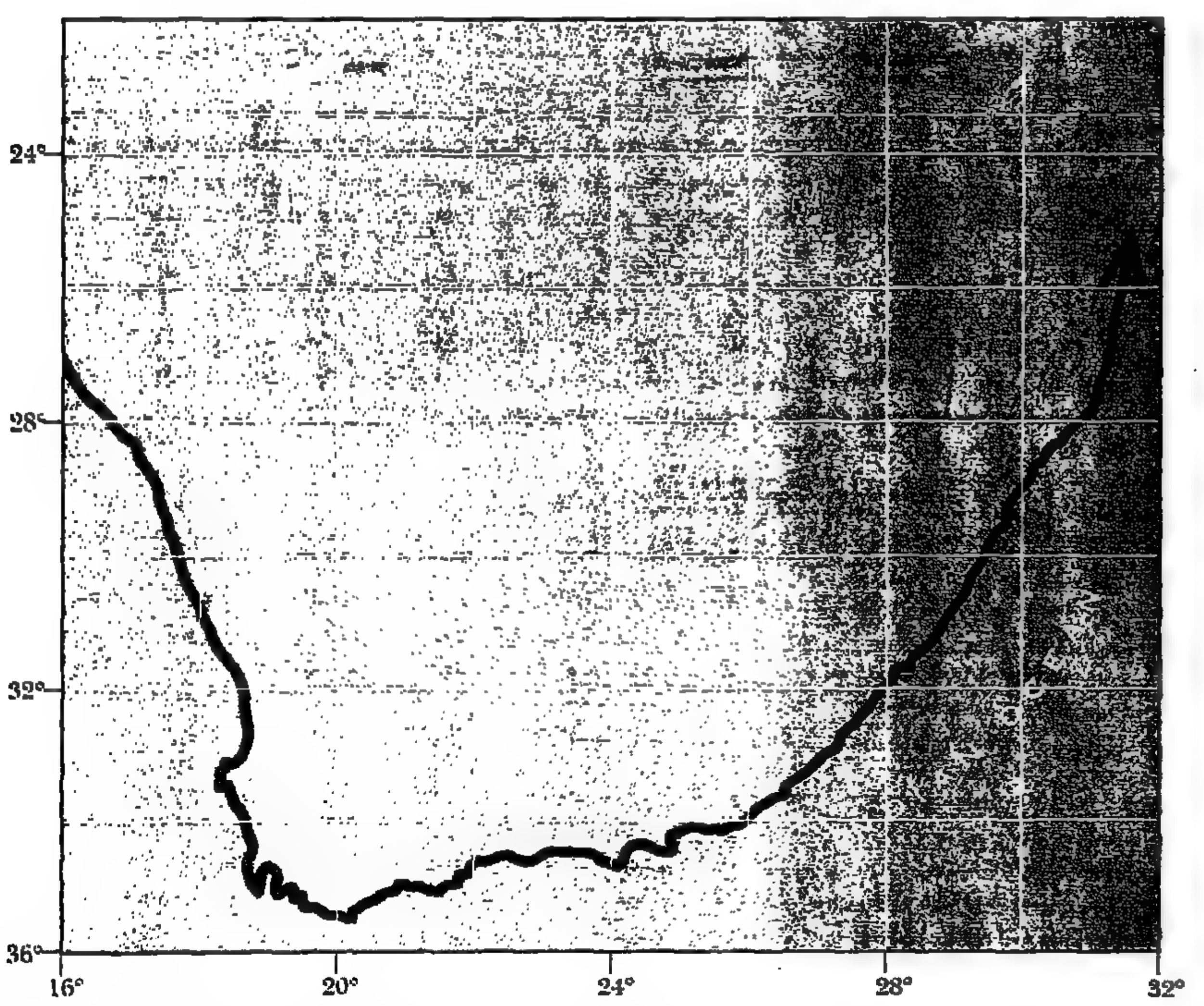
As a result, the government is still borrowing to finance its current as well as capital expenditure.

For bond market investors it is, though, some consolation that ministers recognise that this is a problem which has to be addressed, even if they have to do so gradually.

The clear downward path for the deficit sketched out in this month's budget was one bit of good news for the markets.

For the government, the incentives to deliver on these promises are real. It is not just a matter of textbook economics: that the deficit is keeping real interest rates high, and continuing to channel South African savings into bonds, not growth-generating private investment, is all too visible.

Both are damaging for a gov*ernment which needs to generate* growth and jobs. The good news for the bond market is that it knows it.



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OLD MUTUAL

■ **Investment banking:** by John Kingman

Foreign invasion on the way

A period of profound structural change is in prospect for many large corporations

Of all the problems companies investing in South Africa are likely to face, a shortage of investment banks is not going to be one of them. "It is," as Mark Katzenellenbogen, a *director in SBC Warburg's* Johannesburg office, remarks, "a classically overbanked market."

Traditionally, the business has been dominated by a number of strong local companies – some tied to the country's big commercial banks, some independent. But foreign banks are now invading in big numbers.

The most immediate threat comes from international investment banks which have snapped up local banks and – more commonly – broking firms. But they are not alone: many others are setting up offices on their own.

It is easy to see what is making *international investment* bankers lick their lips: for many of South Africa's large corporations, a period of profound structural change is in prospect.

The corporate sector is strong – its market capitalisation is more than twice the economy's gross domestic product. But, as a result of a long period of separation from the rest of the world economy, it is also deeply inbred.

Exchange controls have given South Africans little choice but to invest their cashflows locally; the result is a deeply complex and interwoven set of shareholding structures. Large chunks of the economy are ultimately controlled by a few big groups – industrial holding companies such as *Anglo American* and the Rembrandt Group, as well as life insurance giants such as Old Mutual, Liberty Life and Sanlam.

The hope is that, as exchange controls unwind, a period of frenetic corporate activity will begin to unfold. As companies exploit their new-found freedom to invest abroad, they will need to finance their moves – either through raising fresh capital, or by selling off some of their extraneous holdings in South Africa. Either way, investment banks hope to benefit.

Moreover, if the result is that fewer shares are locked up in big, rarely-traded holdings, South Africa's corporate sector could even see some hostile bids – currently a rarity.

On top of all this, there are high hopes that privatisation will, in due course, create a healthy flow of lucrative work.

The problem is that while these prospects may be enticing, they are also some way off. "Many of these corporate structures have taken 40 or 50 years to build up; they are not going to be dismantled overnight," *says Derek* Prout-Jones, a corporate financier at

Continued on page 5

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■ **Regional development:** by Tony Hawkins

Trade agreement stalled

Pretoria's "big boy on the block" image has worsened since apartheid's demise

It is possible, but unlikely, that the 12 members of Southern African Development Community (SADC) will reach agreement on a regional trade protocol in time for its ratification at a summit in August.

Delays in renegotiating the Southern African Customs Union (Sacu) agreement between South Africa, Botswana, Lesotho, Namibia and Botswana, increasingly acrimonious trade relations between Pretoria and Zimbabwe and, to a far lesser extent, Zambia, and the sheer one-sidedness of all economic relationships in the region point to enormous difficulties in securing a regional trade deal.

Politicians being what they are, it may be possible to stitch together a form of words – a statement of intent – but the timetable for tariff reductions and harmonisation will be a lengthy one stretching into the next century while, if history is any guide, implementation will be both erratic and hesitant.

Ironically, despite the ANC's insistence on "equitable" development in the region – which is simply impossible given South African dominance – Pretoria's "big boy on the block" image has worsened since the demise of apartheid.

The mood of at least some of Pretoria's 11 SADC partners (Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe) was captured by Botswana's vice-president and finance minister, Festus Mogae at February's SADC meeting in Midrand, when he said: "We don't feel bullied; we feel ignored." South African ministers stayed away from the final session of a meeting characterised by sharp criticism of Pretoria's trade policies.

Industrialists in Zimbabwe and Zambia complain that protective import tariffs are keeping them out of the South African market, while their markets are being plundered by South African manufacturers exploiting the General Export Incentive Scheme (Geis), due to be phased out by the end of 1997, to dump their products at prices below production costs. Zimbabwe's trade numbers tell the story; between 1989 and 1994, Pretoria's share of Zimbabwe's total import bill rose from 20 per cent to 33 per cent while the trade gap between the two countries widened from $185m to more than $480m. Preliminary figures show the trade imbalance worsening further last year.

The situation has been exacerbated by the failure of Pretoria and Harare to negotiate a new bilateral trade agreement covering clothing and textile imports with its main (non-Sacu) trading partner in Africa, Zimbabwe.

Last month, a South African academic, Professor Gavin Maasdorp, of Natal University, pointed out that, because South Africa is classified as a "developed economy" by the World Trade Organisation, Pretoria would have to offer the same preferential entry terms to all developing countries, so that Zimbabwean exporters would not have any special advantage.

> **Few potential investors will look beyond South Africa**

Not only did his assessment create consternation among the Zimbabwean industrialists, but they fuelled demands for increased tariffs and effective anti-dumping duties against imports from South Africa.

A revised Zimbabwe tariff, with lower duties on raw materials but higher tariffs for finished goods, is due to be announced soon. Fears of de-industrialisation loom large in some of South Africa's neighbours.

The penetration of South African retail chains – Shoprite Checkers in Zambia, Pick 'n Pay, Discom, Clicks and Makro in Zimbabwe – is worrying local manufacturers and retailers alike.

The former fear that the South African supermarket chains will buy in bulk and import products into Zambia and Zimbabwe rather than tapping local suppliers.

South African market penetration of the region via investment is growing. It is taking many different forms – retail and hotel chains, mining (Anglo American's projected development of the Konkola Deep copper mine in Zambia), manufacturing and banking (the most recent being the Standard Bank of South Africa's purchase of an increased stake in Banco Standard Totta de Mocambique).

Excluding South Africa, intra-regional trade in Southern Africa accounts for less than 5 per cent of total business, which means that there is considerable potential to expand links. Unfortunately, South African dominance and the yawning gap between the level of development in South Africa and most other SADC states is bound to hinder the process of closer regional ties.

There is much loose talk about monetary harmonisation and the free movement of labour and skills, but a recent South African television report of an illegal visa racket in Zimbabwe, claimed that as many as 300 000 Zimbabweans would seek to enter South Africa this year alone in search of work.

South Africa with some 400,000 job-seekers entering its labour market each year, needs 300,000 Zimbabweans, not to mention countless others from other African states, like the proverbial hole in the head. The most promising field for regional co-operation at this stage is not trade but sectoral agreements covering transport, energy, tourism and possibly cross-border investment.

While regional power developments – the export of electricity from South Africa to Zimbabwe, the rehabilitation of the Cahora-Bassa to South Africa power line, and the possible development of the Pande gas project in Mozambique which would pipe gas to South Africa - have been positive, transport co-operation has run up against a snag in the form of the visible deterioration of the South African customs service.

Here again Pretoria is blamed. Because of corruption within its own customs department, South Africa imposed a 125 per cent duty surcharge on traffic transiting the country en route to Malawi, Zambia and Zimbabwe.

Announced late last year, the surcharge, which was to have covered all transit traffic, was postponed and subsequently amended to cover mainly sensitive freight (clothing, drink and tobacco, electronic goods, etc).

South Africa's neighbours are threatening to divert traffic away from the South African ports and make greater use of Nacala, Beira and Maputo in Mozambique. Bedevilling all plans for economic integration is the existence of overlapping and competitive regional organisations.

With the revival of the East African Community of Kenya, Tanzania and Uganda, Tanzania is a member of three competing groups – SADC, the Common Market for Eastern and Southern Africa (Comesa) and the EAC.

The logical way ahead is by way of a merger between SADC and the four-nation Sacu (all members of the latter are members of SADC), while splitting Comesa with its 20-odd members into an East African union, leaving SADC as the southern African component.

Institutional restructuring of this kind will take time, not just because of conflicting loyalties and jealousies, but also because political leaders in the region are preoccupied with their own domestic issues and reluctant to cede any sovereignty to a regional grouping.

While the debate continues, some, like Zimbabwe's President Mugabe, will seek to strengthen SADC as a political rather than an economic grouping, while South Africa's regional dominance will grow.

Few foreign investors contemplating investment in the region will look beyond South Africa, except for highly labour-intensive operations (wages in South Africa are double or more those in neighbouring states) or if the violent crime situation escalates to impossible levels. In the latter situation, the danger is that they will not invest in the region at all.

Southern Africa's economic performance

Country	Market size GDP 1994 (US$m)	Population 1994 (000)	GNP per head 1994 (US$)	GNP growth per head 1985-1994 % pa	Manufacturing share in GDP % of GDP
Angola	6,000	10,674	590	n.a.	2
Botswana	4,035	1,443	2,800	5.6	4
Lesotho	1,400	1,996	700	0.5	16
Malawi	1,580	10,843	140	–2.0	18
Mauritius	3,510	1,104	3,180	5.5	23
Mozambique	1,330	16,614	80	3.5	n.a.
Namibia	3,050	1,500	2,030	3.4	9
Swaziland	1,050	906	1,160	–1.3	n.a.
Tanzania	2,100	28,846	90	1.1	5
Zambia	3,200	9,196	370	–1.3	23
Zimbabwe	5,425	11,002	490	–0.8	25
Total	32,680				
South Africa	125,200	41,591	3,000	–1.4	23
Regional total	157,860*				

* Of which South Africa = 79 per cent

Source: World Bank Atlas and Economist Intelligence Unit

Foreign invasion on the way

Continued from page 4

Rand Merchant Bank.

Many bankers must also have been disappointed that this month's budget envisaged no privatisation proceeds at all.

In the meantime, with pickings still rather lean, competition has become intense. No doubt as a result, many international banks have chosen only to establish a modest foothold in the market. Morgan Stanley, for instance, has an office with only four staff in Johannesburg; the same company employs 120 in India.

So far, the domestic and international banks are tending to focus on different parts of the market. Although several of the local banks now have offices overseas, most expect to continue to concentrate on the domestic market. "When it comes to big international issues, we are by and large content to play second fiddle," comments Jacko Maree, managing director of Standard Corporate and Merchant Bank.

By contrast with the big brokers, few local banks have so far forged formal alliances with international firms.

Similarly, many international banks are – for the time being at least – content to leave purely domestic work to the local houses. They have good reason to do so: fee levels for domestic work in South Africa have traditionally been low by international standards.

But this live-and-let-live approach may not last. At least one group – the big brokers which have tied up with international companies – is already planning to step up its competition with the local merchant banks for domestic corporate finance work. As Roy Andersen, president of the stock exchange, puts it, the international banks "have not just been buying brokers: more importantly, they have also been buying a research capability and corporate client lists".

Many in the big broking houses are certainly hoping that the local banks have shot themselves in the foot: by pressing for the stock exchange to be opened up, the banks have achieved their aim of getting into broking.

But the same reforms have allowed the brokers greatly to strengthen their corporate finance arms.

In theory at least, the brokers' new international links should give them a competitive edge. A South African company wanting to sell a subsidiary might well, for instance, want more access to international buyers and markets than a purely local merchant bank is able to offer.

On the other hand, the local banks argue that, by remaining independent, they have the freedom to forge international links on a deal-by-deal basis, without being tied to the particular strengths and weaknesses of a single international house.

"Do we tie up with just one player, and accommodate their deficiencies? That's the dilemma," argues Martin Keyser, another Rand Merchant Bank corporate financier.

Moreover, the local banks have another reason to feel relaxed about their new competitors: they have other strengths to fall back on. Traditional corporate finance work, though probably the most high-profile part of their activities, is not by any means the biggest source of their profits.

For instance Investec, one of the big local merchant banks, derives 13 per cent of its profits from securities trading and 42 per cent from private banking and asset management.

Only 30 per cent comes from corporate banking, of which traditional bank lending forms a substantial part.

On the other hand competition is unlikely to restrict itself to corporate finance work. In asset management, for instance, purely domestic houses are likely to be at a competitive disadvantage where South African customers want to put their investments into an internationally diversified portfolio.

In other areas, it may not be so easy for newcomers to knock incumbents off their perch. Standard Corporate and Merchant Bank, for instance, cites its strong position in foreign exchange – it believes it has 35 per cent of the rand-dollar market.

The bank argues that this gives it a unique advantage in selling derivatives such as hedging products.

The truth is that the competitive map is shifting fast, and no-one yet knows how it is going to shake out. "It will be a long time before it all settles down," says SCMB's Mr Jacko Maree. In the meantime, as the banks jockey for position, it is their customers who are likely to benefit.

■ **Black empowerment:** by Mark Ashurst

Little progress in unbundling

The legacy of exchange controls, is a network of cross-holdings among companies

"It has been a painful realisation that not everybody who wants to do business with you has your interests at heart," comments Vusi Khanyile, executive chairman of Thebe Investments.

The portfolio of Thebe, the largest of the black-controlled holding companies not yet listed on the Johannesburg Stock Exchange, ranges from health care to merchant banking and from car hire to information technology. It is a mark of the changing attitudes to emerging black business that analysts are now more likely to speculate on the group's asset value, which has never been disclosed, than on the allegations of political patronage which led to the resignation from its board of Nelson Mandela and Tokyo Sexwale, now premier of Gauteng province, in the run-up to the April 1994 election.

"We concentrate on sectors where there are the greatest racial disparities, where we can improve the quality of life of our people," says Mr Khanyile. Since starting life in July 1992 with seed capital of R100 000, it has acquired assets widely estimated at about R250m, most of them funded by borrowing. The group also controls an airline, an hotel group and a cinema chain.

"Thebe started with political money, and is now the most business-like and entrepreneurial of all the black groups," observes one analyst. According to Michael Spicer, alternate director at Anglo American Corporation: "From a market viewpoint, every single area of debate on black economic empowerment has evolved in a satisfactory way. So one has less crude ideology, fewer fanciful abstract debates, much more pragmatic and practical outcomes."

Consequently, the process of unbundling white-owned conglomerates to broaden the spread of economic power in post-apartheid South Africa has been slow. "For people who own companies, the desire for control is a driving force. I don't know why this is taking so long," says Mr Khanyile. His sentiment echoes President Nelson Mandela, who warned in his opening address to parliament last month that: "We cannot build or heal if we continue with business as usual."

Scarcity of funds

There are 12 black-owned companies listed on the Johannesburg Stock Exchange with a combined value of R7bn, slightly less than 0.6 per cent of the market's total R1,200bn capitalisation. According to Jonty Sandler, chief executive of New Africa Investments, largest of the black-owned conglomerates, this reflects the scarcity of funds. "It is very difficult for black business to raise capital," he says.

There are also structural deficiencies in South Africa's corporate sector. The legacy of exchange controls, designed to prevent capital outflows, is a labyrinthine network of cross-holdings among companies forced to invest profits at home.

More than 70 per cent of the JSE by market capitalisation is controlled by four corporations: Anglo American, Sanlam, the insurance group, Rembrandt, the tobacco and luxury goods group, and SA Mutual, the insurance and financial services group. Two of these, Anglo and Rembrandt, are controlled by their founding families, the Oppenheimers and the Ruperts.

Black investors confronted by poor liquidity and a high price to earnings ratio on the best industrial stocks have depended on white conglomerates to divest strategic holdings. Attempts to reduce the cost of borrowing and the imperatives of black empowerment have also brought a new lease of life to pyramid structures, one of the most controversial features of white-owned corporations.

For example, New Africa Investments, owners of the Metropolitan Life insurer unbundled by Sanlam in 1994, counts among its shareholders at least 20,000 individuals and trade unions representing more than 500,000 people. But control lies with its holding company, Corporate Africa, chaired by Nthato Motlana, formerly Nelson Mandela's physician, and prominent black business leaders. New pyramids of more than one tier are forbidden.

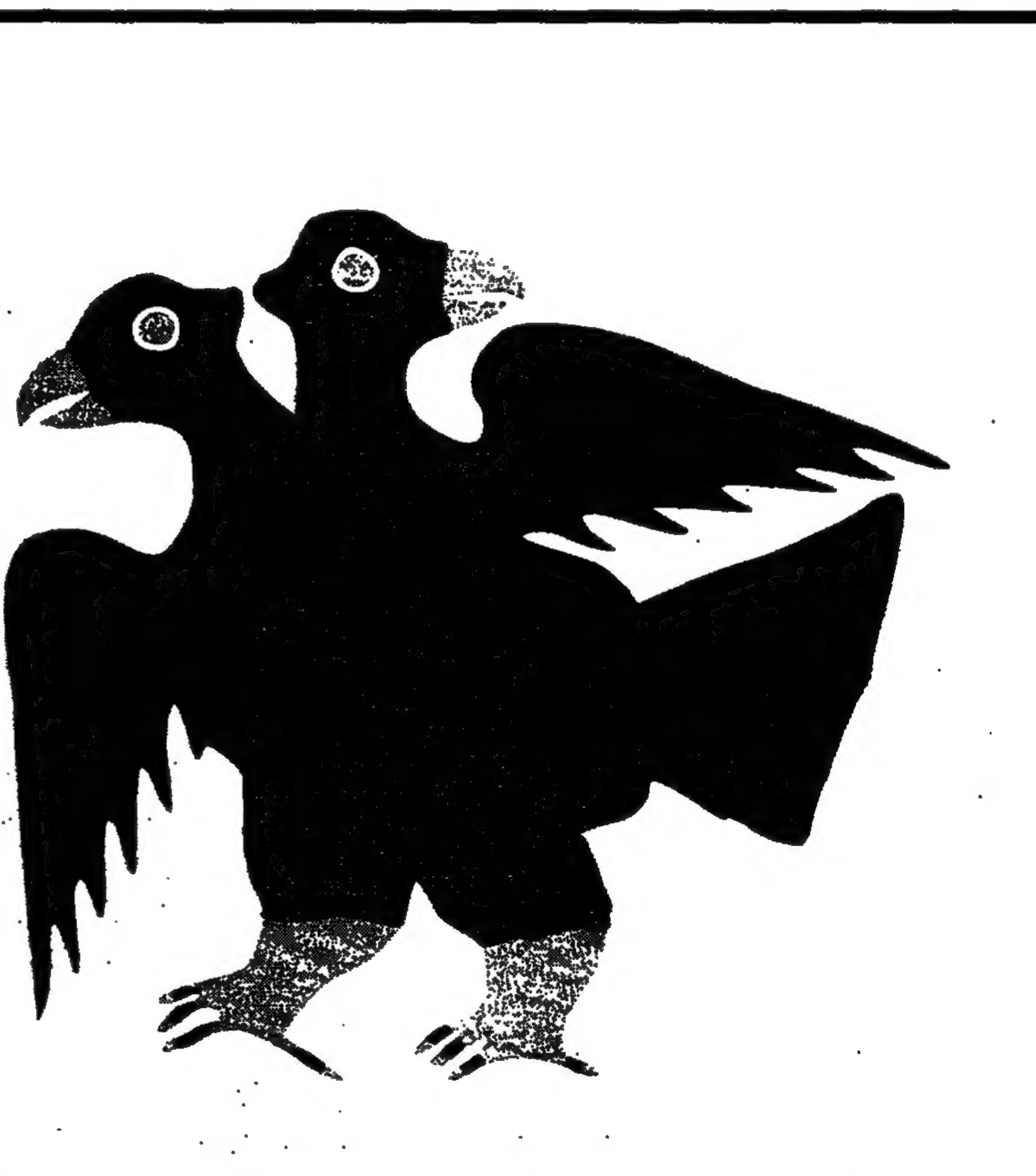
Similarly, Real Africa Holdings, the second biggest black-owned listing, controls African Life insurers through a weighted 47 per cent shareholding, but is itself controlled by parent Real Africa Investments. Its founder and chairman, Don Ncube, gained his first exposure to pyramid structures during a 20-year career at Anglo American.

"This is political control, and it is not commensurate with economic control," notes one black businessman. At the core of the debate is the question of whether black economic empowerment is best served by black control of a few companies, or by an array of minority holdings in a more diversified portfolio. This issue has been brought into sharp focus by Anglo American's attempt to sell its 48 per cent stake in Johnnic, the industrial holdings group, to black interests.

Little headway

The sale includes minority holdings of 13.4 per cent in South African Breweries, 26.4 per cent in the local Toyota subsidiary and 27.4 per cent in Premier retail group, but has made little headway since it was announced two years ago. At R8bn, the price tag is beyond the reach of most black consortia, prompting Anglo to announce recently that it was prepared to "repackage" the sale into smaller components or negotiate a gradual transfer of the assets. But such changes could jeopardise the support of trade unions involved in black consortia, which believe the minority holdings would boost their influence in leading labour-intensive industries.

Black groups may also be reluctant to commit large funds ahead of the partial privatisation of state assets earmarked for "restructuring" later this year. These include Telkom, the telecommunications operator, Eskom, the electricity provider, and South African Airways. "If one were able to raise that kind of money, it is an open question whether Johnnic is the best opportunity," says Mr Khanyile. The existing white conglomerates have little incentive to convince them.



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Provincial development: by Mark Ashurst

Gloves off to break stalemate

Parliament is due to have the final word on the constitution by May 10

The African National Congress, wearied by a stalemate with the Inkatha Freedom Party that predates the April 1994 election, has adopted a "gloves off" approach to the controversy over the role of sub-national governments in the nine provinces.

The final word on the extent of federal powers is due by May 10, the second anniversary of President Mandela's inauguration, when Parliament will adopt a permanent constitution to replace the existing interim document.

Its impact in KwaZulu-Natal, where Inkatha have a 51 per cent majority in the provincial legislature, will be overshadowed by local government elections scheduled for April. That contest will be held against the backdrop of the trial at Durban Supreme Court of former defence minister Magnus Malan and 19 others accused of collusion with military intelligence and Inkatha officials in attacks on the ANC and its allies during the 1980s.

There is now no question of either the ANC or the National Party conceding to Inkatha's demand that they honour a pre-election commitment to international mediation on the issue of federal powers.

The politicking has overshadowed both the administrative problems of federalist-style government and the ongoing turf battles involving leaders of ANC-controlled provinces over the devolution of power from the centre.

The interim constitution grants provincial governments authority for regional planning, the promotion of trade and industry, and urban and rural development. They also have limited powers to tax gambling, which in the March 13 budget became subject to national VAT, and to raise finance by borrowing – although the central government will not underwrite provincial debt.

Chris Liebenberg, finance minister, echoed the sentiments of provincial premiers when he warned in his budget speech that "we must take leave of the notion that sub-national governments can rely on the national government to stand in for poor financial management and budgeting".

But from a macroeconomic perspective, the huge disparities in resources, infrastructure, production capacity, population and economic prospects between the nine provinces can be addressed only at national level.

For example, the smallest province of Gauteng, which covers 1.5 per cent of the national surface area, includes the industrial heartland of Johannesburg, Pretoria and the East Rand. The province contributes 45 per cent of national manufacturing output, 45 per cent of trade, 55 per cent of financial sector earnings and generates 30 per cent of national employment.

By contrast, the most populous province of the Eastern Cape has only 2.7 per cent of total employment and includes the former homelands of Ciskei and Transkei, both burdened by a bloated civil service and widely viewed as insolvent.

Provincial authorities will remain tied to the purse strings of the central government, which allocates their budgets. The allocations for fiscal 1996, announced earlier this month, rejected the spending formula proposed by the parliamentary Financial and Fiscal Commission in favour of more concerted efforts to combat rural poverty.

Only two of the nine provinces, Mpumalanga and the Eastern Cape, received a year-on-year increase in their allocations – of 11.3 per cent to R4.6bn and 9.4 per cent to R13.9bn respectively.

With annualised inflation estimated at 7.5 per cent, allocations to all other provinces declined in real terms. Paul Jourdan, special adviser to trade and industry minister Trevor Manuel and a former political exile, laments what he terms "a war reparation mentality" in the most underdeveloped provinces.

The architect of a new network of "development corridors", Mr Jourdan argues that the combination of improved infrastructure and "simple transport economics" will broaden the spread of private sector investment. "As trade and other barriers go down, the gold reef of Gauteng is no longer the best location for many industries," he says.

This analysis is borne out by the experience of KwaZulu-Natal, which despite the negative image associated with political conflict and crime, has attracted R176m of new investment during the past year. The shortage of capacity at the industrial port of Durban has prompted an eastward shift in cargo traffic to the sprawling industrial development of Richard's Bay, and beyond to the Mozambican capital of Maputo.

The department of trade and industry and the Mozambican government have agreed to collaborate with the private sector to develop a "Maputo corridor", comprising rail and toll roads between these ports and Gauteng. The project is both a commercially-driven response to the infrastructural requirements of existing industries, and a development programme.

The corridor passes from Gauteng, through Mpumalanga and KwaZulu-Natal, and will provide a path for imports and exports to neighbouring countries in southern Africa. "All types of commodity crops in those micro-climates will now become possible," says Dr Jourdan.

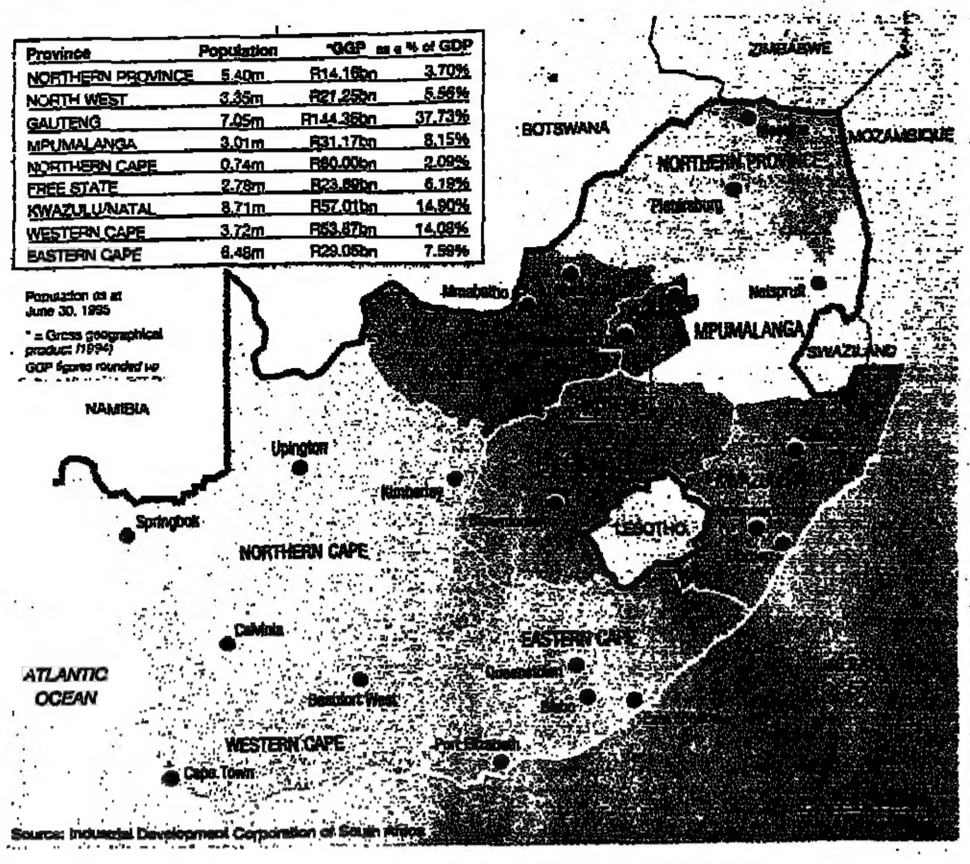
The same logic motivates the department's Regional Industrial Development Programme, which marries location subsidies to tax breaks for new investments outside the main metropolitan areas. Incentives are calculated on the basis of a company's start-up assets and subsequent profitable output to encourage a "virtuous circle" of investment.

Johan Reinhardt, chief director of regional industrial development, says the scheme has attracted about R20bn in investment since it was launched in May 1991, creating 80,000-90,000 new jobs mostly in KwaZulu-Natal, the Western Cape and the Eastern Cape. Funding is also available from the Industrial Development Corporation, which has broadened its investment base to include small and medium-sized enterprises.

Regional Industrial Development Programme projects approved (August 1991 to January 1996)

Province	Number of projects	Total investment (Rm)	Total direct job opportunities
Western Cape	400	4,283	16,018
Northern Cape	56	200	3,250
Free State	140	621	11,423
Eastern Cape	281	5,248	15,136
KwaZulu-Natal	499	7,729	31,069
Mpumalanga	121	1,189	7,689
Northern Province	69	459	3,569
Gauteng	11	37	555
North West Province	39	751	2,542
Total	1,616	20,517	91,251

Source: Department of Trade and Industry



Province	Population	GGP*	as a % of GDP
NORTHERN PROVINCE	5.40m	R14.16bn	3.70%
NORTH WEST	3.35m	R21.25bn	5.56%
GAUTENG	7.05m	R144.38bn	37.73%
MPUMALANGA	3.01m	R31.17bn	8.15%
NORTHERN CAPE	0.74m	R8.00bn	2.09%
FREE STATE	2.78m	R23.89bn	6.18%
KWAZULU-NATAL	8.71m	R57.01bn	14.90%
WESTERN CAPE	3.72m	R53.87bn	14.08%
EASTERN CAPE	6.48m	R29.05bn	7.59%

Population as at June 30, 1995
* = Gross geographical product 1994
GGP figures rounded up

Source: Industrial Development Corporation of South Africa

Trade with European Union: by Caroline Southey

Friction over EU trade pact

Foreign ministers have sought to protect European agricultural products

Relations between South Africa and the EU are at a low ebb. This follows months of procrastination by EU foreign ministers over a negotiating mandate for a wide-ranging trade and co-operation pact between Brussels and Pretoria.

Antagonism began to emerge late last year and signalled a change of mood among EU foreign ministers, who last June agreed to the European Commission's initial proposals for overhauling relations with South Africa.

The Commission's plan was that the EU should enter into a bilateral relationship with Pretoria, which would cover a wide-ranging trade pact, including the eventual creation of a free trade area (FTA), and a multilateral arrangement under which South Africa would become a "qualified member" of the EU's Lomé Convention.

The deal met with some resistance from South Africa, which was keen to be given the full preferential trade terms offered under the Lomé Convention. This would mean South Africa gaining preferential access without being obliged to offer the EU reciprocal access. The EU rejected this on the grounds that South Africa was not simply a developing country but, in some respects, qualified as a developed country.

The irony of the impasse was that it centred on the trade aspects of the deal – but the resistance was coming from EU countries. "It was the EU that persuaded South Africa to pursue an FTA. Now it is the EU backtracking," a trade official said.

For four months EU foreign ministers refused to give the Commission the go-ahead to start negotiations with Pretoria. The focus of their discontent was on the free trade aspect of the deal which provoked furious exchanges between EU ministers about the pros and cons of FTAs.

"This row has not been about South Africa. It has been about FTAs," an EU official said. "South Africa has been held hostage in a broader debate about trade policy."

Some EU countries, such as France, believe the Commission has an ill-defined policy on FTAs. The South Africa proposal was evidence that the Commission was prepared to embark on yet another such pact without doing the necessary homework. There were also fears that the deal would set a precedent that other countries, even those with existing deals with the union, would want the EU to match.

The acrimonious arguments over FTAs had the effect of highlighting the most sensitive area in the dossier – the proposals to ease restrictions on South African agricultural exports to the EU. "It would have been easier to secure a deal last year when the dossier was on the desks of foreign ministry officials," the trade official said. "But agricultural departments have become involved which is where the resistance is coming from."

EU officials point out that the proposal drawn up by the Commission complied with World Trade Organisation guidelines on FTAs. "We took the WTO seriously. It was an innovative package. But we underestimated how much it would frighten member states," an EU official said.

The Commission had proposed that the FTA with South Africa should cover "at the end of a 10-year period of transition, at least 90 per cent of all trade between the parties, with a possible element of differentiation between the two parties".

It also proposed the deal should cover 97 per cent of EU imports in the non-agricultural sector and 55 per cent in the agricultural sector. In turn, South Africa would be asked to apply, at the end of the transition period, a zero tariff for 88 per cent of its non-agricultural imports from the EU and 95 per cent of its agricultural imports. This proposal has been watered down during negotiations between EU countries. Gone are references to particular percentage targets, while among the additions is a provisional list of sensitive products the EU wants excluded from the deal. This includes fruit juices, lemons, oranges, apples, pears and tinned fruit and new products such as maize, beef and sugar.

Furthermore, Germany, in particular, has argued that the list of sensitive products should include commodities not traded between the two, such as cereals and sugar.

The dangers posed by the list, which at the last count meant that 38 per cent of South African agricultural products would be excluded from the deal, are that the accord could be incompatible with WTO rules.

There is also the risk that South Africa could reject the proposed mandate. South African negotiators are intensely frustrated after watching the intra-EU wrangling with growing despair.

Although Pretoria is clearly keen to secure a deal with the EU which accounts for more than half of South Africa's foreign trade and most of the foreign investment in the country, the question remains, at what price.

Studies show that South Africa is unlikely to pose any serious threat to EU markets. The Institute of Development Studies, based in Sussex, found that only a small proportion of South Africa's current exports to the EU could benefit from improved access to the European market. The institute's study concluded that out of 45 leading export items, there was "no significant EU interests at stake" in any of them.

South African officials point out that Pretoria would find it impossible to negotiate on a mandate where the list of sensitive products meant that a large percentage of South African agricultural products were excluded from the deal.

"What we are getting seems to be something considerably less than we hoped for. We wanted the mandate to be as flexible as possible. It could be that we might have to reject the mandate," a South African official said.

Privately, EU officials admit that South Africa would be foolhardy not to reject the proposed mandate "if they think this is all they are going to get". But, said one, it would represent the "EU's first, not final, offer".

> Antagonism to the co-operation pact emerged late last year and signalled a change of mood among EU foreign ministers

EU exports to South Africa

	1992 Ecu(m)*	1993 Ecu(m)*	1994 Ecu(m)*	% of total exports (av)	Growth 1992-94 (%)
Agricultural products	217	210	271	3.8	25.0
Industrial products	5,065	5,372	7,008	96.2	38.4
Total	5,282	5,582	7,279	100	37.8

* Ecu1 = $1.29692 (1992 average), $1.17173 (1993 average) $1.18906 (1994 average) Source: Eurostat

EU imports from South Africa

	1992 Ecu(m)*	1993 Ecu(m)*	1994 Ecu(m)*	% of total imports (av)	Growth 1992-94 (%)
Agricultural products	838	686	813	9.7	-3.1
Industrial products	3,248	2,999	3,506	40.3	13.6
Precious stones & metals	4,977	4,752	2,338	50.0	-58.6
Total	9,063	8,437	6,657	100	-26.6

* Ecu1 = $1.29692 (1992 average), $1.17173 (1993 average) $1.18906 (1994 average) Source: Eurostat

Accumulated foreign investment in South Africa*

	US$m	%
EU member states	15,970	53.0
UK	8,033	25.1
Germany	5,428	16.9
Luxembourg	1,079	3.4
France	1,019	3.2
Belgium	597	1.9
Netherlands	474	1.5
US	5,799	18.1
Switzerland	3,928	12.3
Japan	500	1.6
Hong Kong	489	1.5
Total	32,032	100.0

* Figures are for 1992 Source: South African Reserve Bank

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FT FINANCIAL TIMES

PROFILE Apple Computer

This company came back . . .

Apple Computer returned to South Africa in March 1995, after a 10-year absence, and officially launched an authorised retail network two months later.

Apple Computer South Africa abandoned the local market in 1985, leaving a gap filled by a small number of support companies which developed sanctions-busting routes for importing their products.

The brand had retained a loyal following among small companies and offices with graphics-based desktop publishing needs, but had lost ground in other sectors.

"Instead of fighting these re-sellers, we embraced and accredited the existing market," says Charles Proudfoot, general manager of Apple SA.

Consequently, brand awareness in the small office environment is second only to IBM. By contrast, Apple ranked fifth for ease of use in a recent survey of South African homes. "That's no good because everywhere else we are number one," notes Mark Floisand, marketing manager.

Dealers have been encouraged to concentrate their businesses in either the high-volume, low-margin "plug-and-play" market or the highly-skilled added-value services where customers look for specialised packages.

"Our market share is not what we believe it should be . . . Instead of blindly attacking the market in pursuit of overall market share, our strategy is to dominate our chosen markets [of education, business and home entertainment]," says Mr Proudfoot.

Apple has donated equipment to educational projects in the black townships of Soweto and Mamelodi, and to Rhodes University and the University of the Witwatersrand.

Its biggest deal has been the R4m purchase of 500 computers by Independent Newspapers, the South African subsidiary of the Irish entrepreneur Tony O'Reilly's newspaper group.

Mark Ashurst

Training: by Mark Ashurst

A R35bn boost for education

The need for a better educated and highly skilled workforce is of prime importance

President Nelson Mandela is a creature of habit. Wherever he is in the world, the august 77-year-old rises before dawn, embellishes his arguments with a wagging index finger, and has three words for every child he meets: "Go to school."

His government accords education the same priority. In the national budget of March 13, the education budget of R35.4bn was, for the second successive year, the single largest item of government expenditure.

With official unemployment at 32.7 per cent, the highest on record, and the prospects of short-term job creation subject to the constraints of fiscal discipline, the need for a better educated and higher-skilled workforce is of prime importance.

According to the South Africa Foundation, an association of the chairmen and chief executives of leading private sector conglomerates, more than 2.3m young people in their teens and twenties are out of work. Of these, 1.5m have never had a job or have been unemployed for more than four years. Surging capital inflows, GDP growth of 3-4 per cent and a 10 per cent rise in fixed domestic investment have scarcely improved their prospects. Only seven out of every 100 school leavers seeking work will find formal employment this year.

The long-term impact of the growth in unemployment on racial reconciliation and "nation-building" is widely recognised in the private sector.

But Sheila Sisulu, adviser to education minister Sibusiso Bengu, concedes the government has not pursued a collaborative approach to the training and educational needs of youth. "Business likes a business-like approach rather than a shopping list of woes. I think they are interested, and we could have put a lot more pressure on them to help, but we need a clear strategy," she says.

The belated first step in that process will be the formation during the current parliamentary session of a National Youth Commission, nominally headed by the president, to co-ordinate public and private sector development programmes, and to advise on policy.

Graeme Bloch, project manager at the Joint Education Trust (Jet), says the new commission needs to begin this process from scratch: "Government training institutions are unco-ordinated, and there are no real service delivery benchmarks or standards for training or education programmes."

A partnership of 18 of the largest private sector companies, political, labour, business and non-governmental organisations, Jet was established with R500m in 1992 with "a mission to improve the quality of education and the relation between education and the world of work". In collaboration with the Ford Foundation, it has launched a Higher Education Innovations Project funded by the Ford Foundation to assess the skills in a variety of disparate industries from manufacturing to mechanical engineering and commerce.

The project will supply empirical data to guide the government in creating a credits system for the proposed National Qualifications Framework, which was tabled in Parliament last year. A new South African Qualifications Authority will administer the system, which will recognise prior learning and workplace skills in lieu of academic awards. "We are not asking for government interference," explains Mashowahle Diphofa, project co-ordinator, "but the lack of recognition of workplace skills is a disincentive to pursue formal education. The Framework will encourage many older people to seek qualifications."

A similar process is under way in industry. The hitherto invisible hand of the Department of Trade and Industry can be seen in the strong vocational bias of the proposed national education syllabus. The DTI has also been more candid than the ministry of education in advocating training in applied technologies and closer collaboration between educationists and industry at tertiary level.

One example is the Training and Human Resources Investment Programme, in which government will match private sector investment in in-house training initiatives that adhere to common standards of accreditation. The World Bank estimates that such focused investment on upgrading skills, particularly in small and medium-sized enterprises, could contribute as much as 0.5 per cent to annual GDP growth in the medium term.

The importance of vocational training is underscored by the ongoing funding crisis in schools. The racial disparities in public education are graphic: 14 per cent of African children remain in formal education until matriculation, compared to 88 per cent of whites, 58 per cent of Asians and 20 per cent of Coloureds (mixed race groups). Only one in every 10,000 African children entering school becomes eligible to enter university in mathematics or science.

The most visible achievement in education has been the racial integration of schools which, contrary to February's headline-grabbing reports of Afrikaner parents' refusal to admit black children to Potgietersrus Primary School in the Northern Province, has been accomplished with a minimum of disruption. Unrest has been confined largely to the most prestigious tertiary institutions, the University of the Witwatersrand in Johannesburg and the University of Cape Town, where growing numbers of black students are becoming more strident in their criticism of the administrative and funding structures in traditionally white universities. A 68 per cent rise in funding for tertiary education to R4.9bn this year, with a further R300m earmarked in financial aid for students, reflects the priority given to higher education.

Among school leavers, examination results for black pupils sitting their final matriculation examinations in December last year declined to an overall pass rate of 43.4 per cent, well below the 48.5 per cent level of 1994 but notably higher than the average results between 1989 and 1983. According to Mr Bengu, the improvement shows the government "has arrested the trend of decline in education". In fact, while the decline has slowed, these results remain well short of the 56-57 per cent pass level achieved by black pupils in 1987 and 1988.

In a discussion paper published in December 1995, the World Bank concluded that "the critical first step in improving training is to strengthen primary and secondary schooling – the most equitable and the most cost-effective investment the state can make in education".

Yet the R3.32bn increase in education spending in the March 13 budget is substantially below the R4.4bn that the World Bank estimates is needed to supply the national shortage of 65,000 classrooms. As a proportion of state expenditure, this year's education budget ranks among the highest in the world. It is difficult to see where further resources can be found.

> Only seven out of every 100 school leavers will find formal employment this year

Average student/classroom ratios*

	Primary	Secondary
White	20:1	18:1
Coloured	26:1	23:1
Asian	29:1	27:1
African	49:1	45:1

Academic survival through matriculation

White	88%
Asian	58%
Coloured	20%
African	14%

Educational outcomes among African pupils

Of 10,000 African children who	enter Sub-standard A
1,400	reach matriculation
113	pass matriculation
27	are eligible for university
1	is eligible to enter university in mathematics or science

* Figures are for 1992 Source: World Bank

■ **Pharmaceuticals:** by Mark Suzman

High drug prices attacked

Despite a competitive market, South African drugs are among the most expensive in the world

When setting out her vision of the future of South African health last year, Ms Nkosazana Zuma, the health minister, warned that "drastic and dramatic measures" were needed to reduce the prices charged by private hospitals, and drug firms. The immediate result was uncertainty in the markets – marked by the conspicuous failure of most listed companies in the R14bn private health care industry to join in the bull run on the Johannesburg Stock Exchange. Her comments have also accelerated a shake up of local private health insurers, hospitals and, most notably, pharmaceutical companies.

It is among the latter group that the most profound changes are taking place. There are a diverse range of pharmaceutical manufacturers in South Africa, comprising several big local companies as well as a sprinkling of multinationals, with combined annual sales of R5.5bn. But despite what appears to be a highly competitive market, South African drugs are among the most expensive in the world.

With only an estimated 15-20 per cent of the domestic prescription drug market accounted for by generic drugs – cheaper copies of more expensive, brand-name "ethicals" – the government has now announced that from the beginning of April an essential drug list will be instituted for all medicines bought by the state.

This will require prescriptions to use the generic name of the drug (although patients would still have the option to pay more for branded products). Although the size of the new list is not yet known, it is expected to reduce the number of medicines available in the public sector from 3,000 to around 500 and a committee to monitor and regulate prices has already been established.

To the relief of the drug companies, however, Ms Zuma has not carried out her threat to extend the list to the private sector, which accounts for nearly 80 per cent of the market (drugs in turn account for 33 per cent of the private medical bill).

She has, however, warned that the government may allow parallel imports of cheap generics from countries such as Pakistan and India within two years if improvements are not made – although this appears to be designed primarily as an incentive to increase efficiency rather than a genuine threat. "If pharmaceuticals become more affordable it may not be necessary to implement all these measure," Ms Zuma acknowledges.

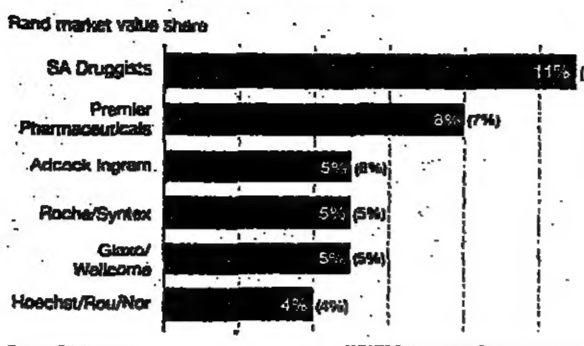
In the meantime, drug companies are also under growing pressure from local medical aid schemes to cut costs. These schemes cover only 17 per cent of the population but account for two-thirds of total private expenditure.

> Parallel imports of cheap generics may be allowed from countries such as Pakistan and India within two years

Traditionally highly regulated, new legislation in 1994 sought to spur competition and efficiency among schemes by allowing them to own and to run hospitals and pharmacies and to employ health care professionals directly.

In the face of an average 25 per cent annual increase in costs and fees over the past five years, insurers are now seeking to use the freedom offered by these legislative changes to restrict expensive fee-for-service systems and boost the tiny managed care element of South African health industry.

Total pharmaceutical market



Source: SA Druggists — 1994/95 figures (1993/94 figures in brackets)

"In the US managed care had drastically reduced costs by contracting directly with doctors, avoiding unnecessary treatments and tests, and reducing specialist care and hospitalisation, all of which are badly needed here," notes one analyst. "It will amount to a revolution in local terms."

This revolution is in part being directed by pharmaceutical companies themselves, as they seek vertical integration to ensure a continued market for their products. SA Druggists, the biggest of the local companies with a 15 per cent market share, has just launched a R300m managed care scheme called Medicross. Multinationals Glaxo-Wellcome and SmithKline Beecham, which have long had a strong presence, are also seeking to expand by embarking on local care projects.

Local hospital group Presmed, which runs eight hospitals and 14 day clinics, has also entered the market, setting up a new company called Managed Care and contracting with doctors directly for services. More significantly, US-based United Healthcare has teamed up with Anglo American, the country's largest conglomerate, and Southern Life, the insurers, to establish a R140m local scheme. The project, to be called, Southern Healthcare, plans to cover 1.2m people and is expected to be up and running by the third quarter of this year.

These new operations are all hoping to take advantage of another important policy shift mooted by government: it is considering legislation that would make it compulsory for employers to take out a basic health insurance package for employees. Only around 50 per cent of employees have medical packages, and if the proposed law is passed, analysts estimate that it could bring an extra 5-10m people into the sector, giving a R2bn boost to the industry and leading to insurers shopping around among providers for cheaper packages.

According to Adrian Gore, managing director of Momentum Health, a local insurer, employers are already planning for the proposals to become law. "Many major employers are now trying to cost what such a scheme might involve," he notes. "Even without legislation, we expect limited employee packages covering tertiary care to become a rapidly growing segment of the market."

But although observers may be more optimistic about the future of the overall industry, nervousness persists, particularly among international investors. Commenting on government's draft policy earlier this year, the Pharmaceutical Research Manufactures of America went so far as to warn that it could amount to "potential nationalisation".

That has so far proved to be an extreme assessment. Nevertheless, it is unquestionably true that, facing the combined pressures of tighter state controls, growing international competition and the managed care revolution, the local industry is likely to find its margins squeezed heavily over the next few years. "The South African pharmaceutical industry is under tremendous price pressure from government, medical aids and the man in the street," acknowledges Peter Armitage, at brokers Ivor Jones Roy & Co. "As a result the market has become highly competitive and this trend is likely to continue."

■ **Health care:** by Mark Suzman

Cuban doctors to the rescue

Massive emigration has caused a shortage of medical personnel

Last month, just two days after Cuba found itself the target of international condemnation after shooting down two US planes, Johannesburg International Airport resounded to the cry of "viva Che Guevara".

The shouts were a welcome to 99 disembarking Cuban doctors and the deputy Cuban health minister. Their enthusiastic welcomers, led by Nkosazana Zuma, the South African minister of health, were a team of provincial health ministers and bureaucrats, there to thank the Cubans for coming to help alleviate growing shortages of skilled medical personnel.

The primary cause of the shortage is massive emigration by South African doctors, nearly all white, nervous about future prospects. South African medical qualifications have always been highly regarded internationally, and on official figures alone, 1,200 health care workers, including 148 doctors and specialists, emigrated over the past two years.

That figure does not include the much larger number of recent graduates who leave on holiday, but find positions abroad.

To help counteract this trend, the government has proposed that newly-trained doctors and specialists spend a set period of time – tentatively put at two years – in the state hospital system before being permitted to enter private practice.

The problem – and its implausible solution – is just one symptom of a sector that, like the rest of South African society, is being forced through a drastic transformation as it adjusts to the demands of a post-apartheid society.

South Africa spends a significant proportion of its income on health care for a middle income economy – at 8.5 per cent of GDP it is a larger share than the UK – but 60 per cent of the money is spent privately on just 25 per cent of patients, primarily whites. In addition, nearly 60 per cent of doctors and close to 90 per cent of pharmacists and dentists are employed privately.

As a result, while private patients enjoy some of the best health care available in the world (after all, the first heart transplant was carried out at Cape Town's Groote Schuur hospital) basic health indicators for the poorer, predominantly black community are little different from those in the rest of poverty-stricken, sub-Saharan Africa.

> Private patients enjoy some of the best health care available in the world

To help change this, shortly after taking office Ms Zuma mooted a plan, drawn up by an Australian consultant, that proposed instituting a national health service. This would have covered all citizens and was to be funded by a compulsory 3 per cent payroll tax. GPs were to be required to work for the state and accept a flat rate per patient.

Following protests from business and the medical establishment, however, those proposals were shelved, and a second committee set up. Its more moderate recommendations, which were set out in two policy documents late last year, are expected to lead to new legislation later this year.

The centre piece is a proposed National Health Insurance System that will focus on the area of Primary Health Care (PHC) and would be available free to all citizens and permanent residents.

To drive the process, the government plans to set up a range of new district health authorities to play the key administrative role for delivery of care.

These will be funded on a capitation basis and, over time, are intended to move from being a provider of care to a purchaser of services from both private and public sources.

Complementing this, the government is also considering legislating for a compulsory hospital benefit package, to be paid for jointly by employee and employer. Unlike the first proposals, however, these packages would be with private insurers and rather than setting payroll rates the state would simply prescribe minimum conditions a package should meet.

The NHIS itself is projected to cost an additional R9bn over five years on top of existing health spending. In addition, money has already started to be diverted from the curative centre – the old teaching hospitals, medical schools, and research institutes – into basic health care.

The desire to equalise per capita health spending also means that previously well-serviced areas – most notably the areas around Johannesburg and Cape Town, which have been historically well resourced with secondary and tertiary institutions – will suffer sharp drops in funding and resources.

PROFILE Danone

. . . and this company is new

Danone, the French food giant, will launch its first venture in Southern Africa this year. A joint venture with Clover, a local dairy group, Danone will manufacture value-added dairy products targeted at upper income metropolitan markets.

Danone, one of the world's largest food groups and France's biggest producer of fresh milk, has acquired a 33 per cent stake in Clover. This enables the South African group to pay off its R440m debt.

The value of Danone's stake has not been disclosed, although its investment in a new yoghurt and soft-cheese operation is estimated to be more than R200m. The new production line will be incorporated within Clover's existing plant.

Analysts say the French group has identified Johannesburg as the beachhead for a marketing drive into Africa, the world's largest untapped food market.

"These are luxury products and the margins are high, but so are the marketing costs. Africans are brand loyal, so new marques need long-term investment, especially in the value-added market which is hardly developed at all," noted one analyst.

The perceived risk of variation among consumers with low disposable incomes is higher in Africa than in western markets accustomed to first world product mixes.

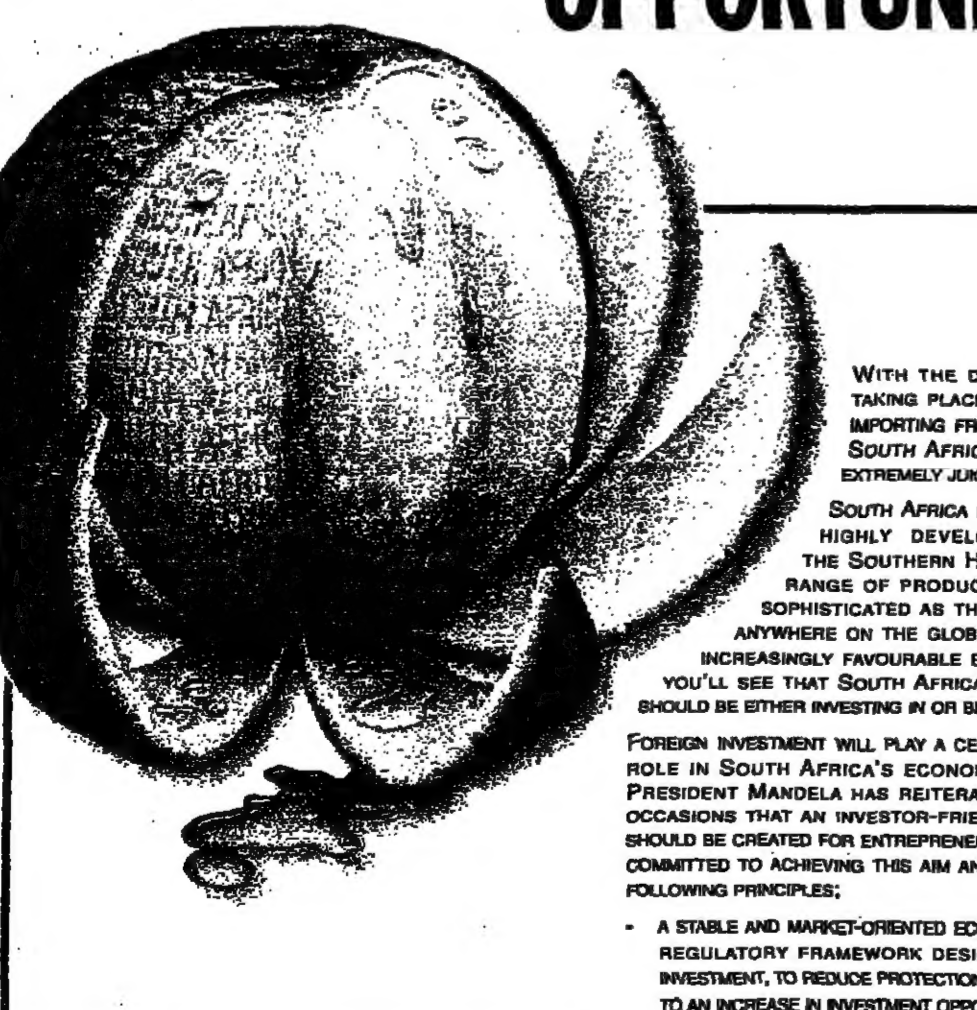
However, Danone's experience of Latin American markets and its decision to pioneer only dairy products reflects an awareness of these risks. Danone also has non-dairy interests including beer, biscuits, mineral water and groceries.

Clover, a 100-year-old co-operative of South African dairies, has a one third share of the dairy market.

Marthinus Hermann, chairman, said: "There were other means to reduce debt, but we sought an equity stake because we want to list on the Johannesburg Stock Exchange within a year or two."

Mark Ashurst

GRAB A SLICE OF SOME GREAT SOUTH AFRICAN OPPORTUNITIES



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- A STABLE AND MARKET-ORIENTED ECONOMIC POLICY AND A REGULATORY FRAMEWORK DESIGNED TO PROMOTE INVESTMENT, TO REDUCE PROTECTIONISM, WHICH WILL LEAD TO AN INCREASE IN INVESTMENT OPPORTUNITIES FOR ALL;
- THE ABOLITION OF THE REMAINING EXCHANGE CONTROLS AS SOON AS POSSIBLE;
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Helping you find a Sweeter deal in South Africa

SOUTH AFRICA:

Unique Opportunities, Unique Challenges

When writing about South Africa, the temptation is to compare it to other countries that have recently opened up to foreign investment and trade. Like the Czech Republic, say, or China, South Africa has long been relatively isolated by political problems and strongly projectionist policies.

But the metaphor quickly falls apart. Compared to the other countries now expanding their ties to world markets, South Africa has sophisticated economic and political institutions. It does not have to establish a functioning capitalist society, because it already has one. The challenge is reform, not revolution.

On the plus side, then, South Africa already has a strong foundation for investment and trade, both with Europe, the Americas and Asia and with its neighbours to the North. Critical advantages include:

A well-established financial sector, with diverse markets, including Africa's strongest stock market, and one of the most advanced computerised banking systems in the world.

High-level economic infrastructure in the main urban areas. Shortcomings in infrastructure emerge, not in the roads, harbours and telecommunications required for modern industry, but in poorer residential communities and remote rural areas.

Relative freedom from regulation. Compared to the nightmarish bureaucracies that have taken so long to dismantle in the former Communist countries, South Africa enjoys an effective system of economic governance. Over-regulation mostly affects smaller enterprises. In general, the government is committed to reviewing and, wherever possible, simplifying procedures. Foreign-exchange controls have always been relaxed compared to most African countries, and no longer affect non-residents at all.

A stable, modern legal system that provides a reliable framework for economic activities. In contrast to many other Third World countries, the law in South Africa effectively enforces contractual obligations and mediates disputes. Corruption is trivial, and apparently non-existent in government dealings with larger investors.

As South Africa defines a leading role in regional trade and development groupings, it is further expanding its access to foreign markets.

The government inherited high levels of spending, although the on-going shift in the structure of pension funds for public servants exaggerates the figures in comparison with other countries. Politicians and officials alike want to avoid substantial increases, with the debt crisis experienced elsewhere in Africa as a stark example of what to avoid. They must balance social necessities with macro economics imperatives.

To meet this challenged, the government proposes three key programmes: investment in household infrastructure, upgrading skills on a massive scale, and an industrial policy that can support potentially strong sectors while enhancing employment as far as possible. In all these areas, it plans to rely on a partnership with business, with efforts to promote small-scale enterprise in that context.

The RDP Fund alone has allocated over R4 billion to infrastructure and housing in the coming year. To fund these projects, the government has cut in other areas, notably defence, rather than increasing overall spending. These investments will raise living standards for millions of South Africans. At the same time, massive infrastructure projects provide many openings for private investment.

The industrial policy is based on a combination of research into likely competitive advantages and negotiations with the major social partners. Clear policies on sectoral and spatial frameworks should emerge from work by the Department of Trade and Industry over the next few months. These projections will assist companies to take advantage of the "supply-side measures" now being introduced to support projects with a potential for enhancing exports and employment.

Despite this relatively happy picture, foreign investors still express concerns. These include fears of political violence; fiscal recklessness causing inflation or massive devaluations; labour unrest; and skills shortages.

The most commonly cited problem remains political and social unrest. This concern apparently has two roots: The lack of democratic traditions in the state, and the massive inequalities inherited from apartheid. As a result, some observers worry about a host of afflictions, ranging from fiscal chaos, on the mild side, to - in more sensational versions - outright civil war.

If you live and work in South Africa, these fears have an Alice in Wonderland flavour. The political and social climate has changed so profoundly in the past five years that the possibility of major conflict seems remote; and the government's dedication to fiscal discipline is extreme. But for much of the rest of the world, the transition to democracy seems to have left a legacy of distrust.

Foreign observers argue that the miracle of the political transition cannot prevent unrest arising out of the massive inequalities that rack South Africa. As the following table shows, apartheid's legacy was an unusually high share of income going to the top quintile. Two thirds of African households, mostly in the rural areas, lack adequate water and electricity. Inequality derives in large part from high levels of unemployment, which runs at over a third of the labour force.

An additional legacy of apartheid remains relatively low skills levels in much of the population. South Africa does have a large pool of people with high-level skills and considerable experience. The challenge is to expand formal qualifications and capabilities among the majority of the population. For this reason, the government is initiating a qualifications framework and sectoral training bodies that, in the next few years, should rapidly raise skills levels.

Perhaps most important in this connection is South Africa's long-established industrial workforce, which has critical general skills - an understanding of the discipline of modern industry and basic technical capabilities, among others. True, labour unrest was a common occurrence before the elections. But the number of strikes fell dramatically with the introduction of democracy. The new Labour Relations Act aims to encourage mediation over confrontation.

One specific skills shortage provides a major motive for involving private partners in infrastructure projects: The country as a whole, and especially local government, lacks expertise in developing large-scale infrastructure schemes. These projects need to combine technical projections and financial engineering to ensure benefits for all the major stakeholders - and private investors who can supply the needed skills are much in demand.

Finally, local business has argued that workers in South Africa are overpaid. In the event, South African wages are not high by world standards: If we ignore management and supervisors, it seems that average workers in manufacturing earn the same or slightly lower than similar workers in East Asia and Latin America. It does appear that supervisors are paid more than their counterparts in these countries. Ultimately, however, South Africa can only compete, not by depressing pay, but by raising productivity - especially through better skills and work organisation - and expanding competitive advantages.

The government feels that pay increases should generally be in line with improvements in productivity. A major exception emerges, however, where historical discrimination led to unacceptable differentiation on the basis of race and gender. As the following table indicates, pay differentials between people of different races in the same occupations remain high.

In short, South Africa provides a unique opportunity for economic expansion. The challenges are huge - but the underlying strengths of the economy promise that they can be overcome. Above all, the political and social risks have already proven less than some foreign observers feared; and the government has set a clear direction for remedying inequalities in ways that will promote sustained economic growth.

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Tourism: by Mark Ashurst

Great trek to the rainbow nation

The industry is set to replace gold as South Africa's biggest earner of foreign exchange

The South African tourist industry has never had it so good. The Tourism Development Corporation is expecting a total of 4.4m visitors to South Africa this year, with the number of overseas visitors increasing by more than 50 per cent a year. If the country's newfound popularity as a tourist centre persists, there will be 8m arrivals by 2000, creating 270,000 new jobs and bringing as much as R20bn in foreign exchange.

Basking in the reflected glory of South Africa's political transition, the tourist industry is set to replace gold as South Africa's biggest earner of foreign exchange.

But the novelty of the self-proclaimed "rainbow nation's" new political flavour is at best a temporary competitive advantage.

Mike Fabricius, chief director at the department of the environment and tourism, says there is widespread recognition that the surge in tourism will need careful management if the forecasts are to become reality. "About 20 per cent of visitors cite the political changes as a reason for coming, (but) we have always projected that within two years South Africa will become an ordinary competitor. There is no question that we need to position ourselves aggressively in the travel market."

The investment record so far suggests the private sector is confident this will be achieved. At least 30 new hotels will be built on the majestic Cape Peninsula over the next two years. Among the dozens of new investments announced in the past 12 months is a plan by the Dutch-owned Golden Tulip International, the world's 10th largest hotel consortium, to develop 20 4/5-star hotels in two years. The US-based Monex Development Company has put forward plans to build a R3bn national chain of 10-15 hotels including a Disney-type theme park, convention centre, 200,000 square metres of office space and the country's largest shopping centre.

According to Satour, the national tourist authority, this is only a beginning. Despite the natural beauty of the land and a well-developed infrastructure, tourism last year contributed a modest 3 per cent of GNP, compared to a world average of 10 per cent. In 1994, the industry employed only one in every 25 economically-active workers, substantially fewer than the world average ratio 1:15. There is huge scope for development.

On March 6, Dawie de Villiers, minister of environmental affairs and tourism, told an investment seminar in Bonn, Germany, he expected international tourism to South Africa "to grow at between 12 per cent and 18 per cent per annum, thereby having an effect of more than R600bn on the economy and on the lives of approximately 5m people". Analysts say development on this scale could become a visible incentive for local communities to combat crime, which,

> At least 30 new hotels are planned for the Cape Peninsula

together with high transport costs, is the biggest obstacle to growth. Satour estimates that every 30 tourists create a year's direct employment for one person.

The success of the South African hotel industry up to now has been closely tied to gambling, which will remain a principal money-spinner under the new dispensation. Gambling was previously confined to the nominally self-governing "homelands" of apartheid, and was outlawed by the Nationalist government in South Africa. However, the creation of a new Gambling and Lotteries Board has prompted a radical restructuring at entrepreneur Sol Kerzner's Sun International group. The creators of the legendary Sun City gambling resort are planning a R2bn five-star hotel chain with new sites in Durban, Johannesburg and Cape Town.

Sun International has also formed a consortium with black business interests – reportedly including Thebe Investment Corporation, and Landmarks Berhad, the Malaysian Leisure and Property conglomerate – to buy back a share of the government's R1.4bn stake in Sun International's existing resorts inherited with the disbanding of the former homeland regimes. The alliance between black business and a casino group which, paradoxically, flourished on the borders of a Calvinist society and granted large stakes to homelands created by the National Party government, is indicative of the changing business climate.

Other local investors have reacted with similar enthusiasm to the legalisation of gambling, which is estimated could attract up to 1 per cent of national consumer spending. The largest is Global Resorts, an investment vehicle for Rand Merchant Bank, which plans a network of casinos and "theme" hotels subject to licensing by the new board.

The influx of tourists from outside Africa, heralds fierce competition among airlines. One in four tourists flies from another continent, and the number of international flights into South Africa has increased from 19 to more than 50 over the past two years. About half come from Europe, where Britons and Germans who in 1993, the last year for which official figures are available, comprised 24 per cent (148,868) and 17 per cent (104,764) respectively of all overseas arrivals. The sharpest year-on-year growth was among American and Australian arrivals, which rose by 20 per cent to 62,430 and 24 per cent to 24,000 respectively, as American Airlines and Qantas introduced new flights to Johannesburg.

Such rapid growth poses an unambiguous challenge to the natural habitat. Mr Fabricius concedes the unified ministry of environmental affairs and tourism "could be positioned closer to the Department of Trade and Industry in the commercial sphere of development promotion", but warns that this could undermine the government's commitment to eco-tourism and sustainable development. "There is a major fear that we could kill the goose that lays the golden egg."

Deputy-minister General Bantu Holomisa, the former ruler of the Transkei region in the Eastern Cape where the unspoilt Wild Coast is expected to accommodate a new beach resort, has cast himself in a new role of environmental activist.

On March 6, years of lobbying by environmentalists were rewarded when the cabinet decided that mining and the development of tourism were not compatible on the eastern shores of St Lucia, KwaZulu-Natal.

Mining will not be allowed, and the shore will be nominated as a World Heritage Site if, as expected, parliament ratifies the relevant UN conventions this year.

The Park Hyatt in Johannesburg: international groups have announced extensive plans to build hotel chains

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Politics: by Roger Matthews

Uncertainty clouds future

The ANC and the nation have to prepare for the day when Mr Mandela steps down

South Africa's political environment is more stable than most commentators would have dreamed possible two years ago. The then improbable three-party coalition of the African National Congress, the former ruling National Party, and the predominantly Zulu Inkatha Freedom Party, has remained together in the government of national unity. Despite occasional tensions, it continues to function smoothly.

Political killings, with the worrying exception of the KwaZulu-Natal province, have largely ended. The reputation of President Nelson Mandela has, if anything, been enhanced. As he embarks on his final three years in office he has made clear that his overriding objective is to build on the national reconciliation so far achieved.

However, the political evolution is far from complete. Negotiations continue over the shape of the final constitution which among many things will resolve the relationship between central government and the nine provinces. The Truth Commission, under Archbishop Desmond Tutu, is about to begin its two-year task of investigating the gross human rights violations of the apartheid years. It is a process that will result in amnesties being granted to those who fully confess, but at the same time will bring into public view details of acts which some people fear will stir bitterness. The murder trial in Durban of General Magnus Malan, the former defence minister, and 19 others, is already revealing some of the worst excesses of that period.

Whatever the political fallout from these processes, the most important debates in the run-up to the 1999 general election are likely to take place within the ANC, and among its allies, the Communist Party and the Congress of South African Trade Unions (Cosatu). In large part this is because the ANC appears certain to dominate South African politics for the foreseeable future. It is possible that the party will split, but potential defectors know the risks of divorcing themselves from the historical legitimacy, possible patronage, and opportunity to influence decisions that membership confers.

The main battle is likely to be about economic policy. The ANC has moved a long way towards embracing free market policies, but against a background of three years of steady economic growth. Should that upward trend now flatten out, as seems likely, the debate over the allocation of slender resources, and the measures needed to stimulate faster growth, will become more intense and divisive. Cosatu has already delayed government plans to seek a private sector equity partner for at least one state company, and has made clear its opposition to outright privatisation, even of small loss-making enterprises.

The ANC, and the nation, have also to prepare for the day, in at most three years' time, when Mr Mandela steps down. The rand's tumble in February underlined how anxious the markets are about his departure. Despite recent criticism in the media, deputy president Thabo Mbeki remains the obvious front-runner, with Cyril Ramaphosa, the ANC secretary-general, next in line.

It appears unlikely that there is anything the other political parties can do to upset the ANC's equilibrium. The National Party, in the words of its leader FW de Klerk, has recently embarked on "a spiritual trek to an as yet unknown political destination". Roelf Meyer has quit his cabinet post to take up the new position of party secretary-general, a move which would appear to anoint him as the next party leader, and chief political navigator.

Where Mr Meyer wishes to guide the Nationalists will take time to emerge. He is committed to extensive contacts with other political

> The coalition continues to function smoothly

organisations to discover if they can coalesce around a set of agreed principles, rather than in simple opposition to the ANC. But instead of the perhaps fruitless, and certainly divisive, task of seeking to make the party attractive to the black majority, the Nationalists could choose the safer option of consolidating its mainly white power base and reconciling itself to outright opposition.

Chief Mangosuthu Buthelezi, who heads the IFP and is minister for home affairs in the government of national unity, appears to have no such doubts. The fierce rivalry between his party and the ANC in KwaZulu-Natal remains the worst blot on the political landscape. Efforts to stem the killings have had little effect. Between January 1 and March 21 this year there were 85 deaths described as political killings in the province. An end to the violence appears unlikely until there is a satisfactory resolution to the argument over the degree of autonomy to be granted to the province.

The ANC describes IFP demands as tantamount to secession, while Chief Buthelezi accuses the ruling party of wanting to control everything from the centre. Local elections are due in the province on May 29, but the prospects of a second postponement are high.

Central to the IFP demands is that the ANC and National Party should act on their pledge, made just before the 1994 general elections, to put the issue of regional autonomy to international mediation. This the ANC refuses to do.

The stubbornness of both parties, and their unwillingness to make the sort of compromises which produced a national political settlement in 1994, leaves a degree of uncertainty that will continue to blight the more positive assessments of stability.